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EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT

National Development Financial Institutions: Trends, Crisis Response Activities, and Lessons Learned

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FIRST 2.0 initiative

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Acronyms

ADF	Automatization and Digitalization Facility
AFD	Agence française de développment
Bancomext	Banco Nacional de Comercio Exterior
BBB	British Business Bank
BBLS	Bounce Back Loan Scheme
BCAP	Business Credit Availability Program
BDC	Business Development Bank of Canada
BDCC	BDC Capital
BGK	Bank Gospodarstwa Krajowego
BNDES	Brazilian Development Bank
CBILS	Coronavirus Business Interruption Loan Scheme
CDB	China Development Bank
CEBA	Canada Emergency Business Account
CEF	Caixa Economica Federal
CGC	Credit Guarantee Corporation
CLBILS	Coronavirus Large Business Interruption Loan Scheme
DB	development bank
DBG	Development Bank Ghana
DBJ	Development Bank of Japan
DFI	development financial institution
ECLGS	Emergency Credit Line Guarantee Scheme
EDC	Export Development Canada
FDN	Financiera de Desarrollo Nacional
FGO	Fundo Garantidor de Operacaos
FIRA	Trust Funds for Rural Development
FND	Financiera Nacional de Desarrollo
FSAP	Financial Sector Assessment Program
GDP	gross domestic product
GECL	Guaranteed Emergency Credit Line
HBOR	Croatian Bank for Reconstruction and Development
IADB	Inter-American Development Bank
IADB	Inter-American Development Bank
IBK	Industrial Bank of Korea
ICO	Instituto de Crédito Oficial

IDC	Industrial Development Corporation, South Africa
IMF	International Monetary Fund
IPO	initial public offering
KDB	Korea Development Bank
KfW	Kreditanstalt für Wiederaufbau
KGF	Credit Guarantee Fund, Turkey
KISF	Key Industry Stabilization Fund
KODIT	Korea Credit Guarantee Fund
KOGSEB	Small and Medium Industry Development Organization, Turkey
KPI	key performance indicators
M&A	mergers and acquisitions
M&E	monitoring and evaluation
MFI	microfinance institution
MSMEs	micro, small and medium enterprises
NAFIN	Nacional Financiera, Mexico
NAO	National Audit Office
NBFC	nonbank financial company
NDFI	national development financial institution
NPLs	nonperforming loans
OECD	Organisation for Economic Co-operation and Development
PCBO	Primary Collateralized Bond Obligation
PCG	partial credit guarantee
PEAC	Emergency Credit Access Program
PESE	Emergency Employment Support Program
PRONAMPE	Programa Nacional de Apoio às Microempresas e Empresas de Pequeño Porte
PSB	public sector bank
SAFE	simple agreement for equity
SEBRAE	Brazilian Micro and Small Enterprises' Support Service
SEFA	Small Enterprise Finance Agency
SELIC	Brazilian federal funds rate
SIDBI	Small Industries Development Bank of India
SJPP	Syarikat Jaminan Pembiayaan Perniagaan
SMEs	small and medium enterprises
SOB	state-owned bank
SOE	state-owned enterprise
SOFI	state-owned financial institution
SPV	special purpose vehicle
SRP	Special Relief Program
TCU	Tribunal de Contas da União
TKYB	Turkey Development and Investment Bank (Turkiye Kalkinma ve Yatirim Bankasi)
TRRF	Targeted Relief and Recovery Facility, Malaysia
TSKB	Industrial Development Bank of Turkey (Turkiye Sinai Kalkinma Bankasi)
TWARIT	Timely Working Capital Assistance to Revitalize Industries in Times of corona crisis
VEB	Vnesheconombank, State Development Corporation

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Executive Summary

In recent years, there has been renewed interest in providing countercyclical lending and sustainable development financing through national development financial institutions (NDFIs).[1] Research indicates that there are benefits to this approach. NDFIs often address existing market failures. They can encourage private investment and finance long-term infrastructure projects, as well as other large investment projects. NDFIs can finance projects in underserved sectors seen as too risky for private financiers, such as agriculture and small and medium enterprises (SMEs). In addition, NDFIs might be willing to invest in sectors that produce benefits for society overall, but that may not be financially profitable, such as projects in education or the environment. Procyclical lending of state-owned banks and development banks (DBs) can compensate for retrenchment of private lending during recessions.

Despite these benefits, the activities of national development financial institutions can be controversial. Critics cite complaints of competition with commercial banks, crowding-out of private investment, and support to objectives of political elites, rather than addressing sustainable development objectives. Some have been criticized as inefficient and mismanaged. Nonetheless, several countries, including advanced economies, are creating new development financial institutions. Seventy-four new NDFIs were established during the period of 2010–2020, and both the European Commission and United Nations have expressed strong support for NDFIs. In 2018, NDFIs accounted for 6.5 percent of global banking assets.

While NDFIs are often a feasible solution for addressing development needs and closing financing gaps, they are not always the best solution, and their setup and structure need to be tailored to the country's needs. It is important that prior to setting up a new NDFI or increasing the scope of operations of the existing ones, governments consider all available public policy interventions as well as options for private capital involvement to address unmet financing needs of the private sector. Directly providing financial support by the state, especially at subsidized rates, can be an expeditious way to close the financing gap. However, it is rarely optimal or enough on its own, particularly for countries with weak institutions and fiscal constraints. Nevertheless, NDFIs can play an important role as part of a strategy to support financial access to certain underserved sectors, at least while more structural solutions are implemented and take root.

1 In this paper, development financial institutions (DFIs) are represented by development banks (DBs), publicly owned nonbank institutions that provide credit for developmental purposes, and partial credit guarantee (PCG) funds. The paper primarily focuses on DFIs operating under micro, small, and medium enterprise (MSME) and export/import mandates.

NDFIs will likely see strong demand for their interventions in a post-COVID-19 recovery phase. This calls for enhanced NDFI efficiency and effectiveness. The effectiveness of DFIs in serving development objectives differs substantially across countries and within a country, with important lessons to be drawn. NDFIs should have a well-defined mandate or mission statement focused on complementing the private sector and crowding-in private investors to provide financial solutions to identified underserved segments or projects while preserving financial sustainability. A focus on servicing credit-constrained viable borrowers should be the key to filling in the financing gap and providing additionality to the private sector, while ensuring that private sector finance is not crowded-out and net economic impact is maximized. At the same time, development of a range of instruments to leverage private sector funding through risk sharing mechanisms or through instruments that support the development of an ecosystem of financial sector providers should accompany NDFIs' operations. Direct provision of preferential lending should be used only sparingly and for a limited period when large externalities can be justified, and subsidies should be channeled in a transparent and nondistortionary way. The focus on financial sustainability helps ensure subsidized lending will not be the primary focus of the institution, limiting the potential for crowding-out the private sector, reducing the scope for corruption, and fostering innovation at the NDFIs.

To maximize the net benefits of NDFIs and ensure their financial sustainability, NDFIs should be effectively managed and properly supervised. NDFIs should be effectively managed, and the incentives of management and staff should be aligned with the objectives of the institution through effective corporate governance, risk management, and mechanisms to evaluate the performance of NDFIs. Financial supervisory authorities should ensure that NDFIs are properly supervised and operate on a level playing field related to prudential regulations and competition. Specifically, a DB's oversight framework should be based on its activity and risk profile and not on the nature of the shareholders, with credit, market, and operational risks being supervised in accordance with international regulatory standards applying to private commercial banks. DBs should not receive preferential tax treatment and subsidies that are not available to private institutions or be exempted from prudential regulatory requirements—either de jure or de facto through lax supervision. In cases where the environment is not supportive of DFI effectiveness, it may be advisable to operate in second tier through other financial intermediaries and raise funds in international capital markets.

NDFIs have been important actors in the implementation of countercyclical finance in response to the COVID-19 pandemic and have helped mitigate a credit crunch. A review of COVID-19 programs implemented by selected NDFIs supporting SMEs in 13 countries—Brazil, Canada, China, Germany, India, Malaysia, Mexico, Poland, Republic of Korea, Russian Federation, South Africa, Turkey, and the United Kingdom—provides insights on how these institutions have been used during the crisis. The most common interventions were lending, mostly at preferential terms, and credit guarantees provided by DBs or credit guarantee institutions. Next most common were measures to facilitate access to credit and debt repayment moratoria. In addition, NDFIs provided liquidity support to other financial institutions. Less frequently, NDFIs provided equity-financing solutions for firms or guarantees on firm securities. Support included not only funding, but also advisory services provided to the borrowers. Many interventions supported all firms, not only the affected firms or those producing goods to fight COVID-19. Few programs set conditions on recipient firms beyond financial performance prepandemic. Overall, credit growth in most of the analyzed countries was similar to, or even higher than, credit growth in the previous year, partly thanks to public-credit support programs. The longer-term effects of these programs are still to be assessed, with main concerns focusing on support to unviable firms and fraudulent use of schemes.

During the COVID-19 pandemic, governments have taken on large balance-sheet risks to support credit growth, in many cases using NDFIs as administrators of public anti-crisis programs. In Brazil, Canada, Korea, and the United Kingdom, for example, governments used NDFIs to administer partial credit guarantee programs and other credit support programs, without expanding their balance sheet. In this way, NDFIs did not need to hold excess capital to support countercyclical activities, which limits the scope for mission creep and crowding-out of private finance post-crisis. Separating crisis activities from the balance sheet of the institution also facilitates monitoring the results and costs of anti-crisis programs and helps preserve NDFIs' financial sustainability, as the government directly assumes risks and provides the funding.

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Introduction

In recent years, episodes of global crisis and an increased focus on sustainable development have contributed to renewed interest in national development financial institutions (NDFIs). NDFIs are financial institutions with a policy objective that is closely related to the economic development of a country or given sector. While technically they may not be financial institutions under country definitions, they have their own balance sheets, independent from the government that owns them.[2] Development financial institutions (DFIs) include development banks (DBs), nonbank institutions that provide credit for developmental purposes (for example, Corfo in Chile or Caisse des Dépôts in France), and partial credit guarantee (PCG) funds. DBs are DFIs with a banking license, which allows them to collect deposits (retail or wholesale) and provide credit, and since they are the most common type of DFIs sometimes the terms are used indistinguishably.[3] In the aftermath of the 2008 global financial crisis and the COVID-19 pandemic, NDFIs have played a substantial role in countercyclical lending and sustainable recovery. With quantitative easing showing limited impact on economic growth following the 2008 global financial crisis and many countries facing tightening fiscal constraints, policy makers have increasingly explored state-owned banks as potential providers of countercyclical finance. The European Commission envisioned a key role for DBs in the implementation of the Investment Plan for Europe and has provided guidelines for the establishment of development banks in countries that do not yet have one.[4] Furthermore, the Addis Ababa Action Agenda, approved by all United Nations members after the 2015 Financing for Development Conference, expressed strong support for using national development banks, in collaboration with private financial institutions and investors, to help fund infrastructure and, more broadly, achieve sustainable development goals. The United Nations also has concluded that "the time is ripe to promote development banks."[5]

Reflecting renewed interest, several new DFIs have recently been created or are in the process of being created in both advanced and developing and emerging economies. The definition of what constitutes a development financial institution has changed over time. In the 1990s, they were defined as "unique financial institutions in under-developed countries. They specialize in providing high-risk, long-term financing for the purpose of industrialization."[6] Inter-American Develop-

2 J. Xu, X. Ren, and X. Wu, "Mapping Development Finance Institutions Worldwide: Definitions, Rationales, and Varieties" (NSE Development Financing Research Report No. 1, Institute of New Structural Economics, Peking University, 2019).

3 For example, World Bank defines DBs as "any type of financial institution that a national government fully or partially owns or controls and has been given an explicit legal mandate to reach socioeconomic goals in a region, sector, or market segment." World Bank, "2017 Survey of National Development Banks" (World Bank, Washington, DC, 2018), p. 12. Definitions of DFIs and DBs often refer to state ownership, although there are some private DBs such as Industrial Development Bank of Turkey (TSKB).

4 European Commission, "Working Together for Jobs and Growth: The Role of National Promotional Banks (NPBs) in Supporting the Investment Plan for Europe" (COM/2015/0361, Communication from the Commission to the European Parliament and the Council, Brussels, 2015).

5 UNCTAD (United Nations Conference on Trade and Development), "The Role of Development Banks in Promoting Growth and Sustainable Development in the South" (United Nations, Geneva and New York, 2016), p. 6.

6 P. E. Roberts Jr., "Development Banking: The Issue of Public and Private Development Banking," *Economic Development and Cultural Change* 19, no. 3 (1971): 424–37, p. 2.

ment Bank (IADB) highlights that DFIs are "concerned with offering long-term capital finance to projects that are deemed to generate positive externalities and hence would be underfinanced by private creditors.[7] Apart from that, support to private sector development in developing countries[8] and induction of growth, development and structural change[9] are named as important objectives of DFIs. DFIs are defined as financial institutions with a policy objective that is closely related to the economic development of a country or given sector,[10] and are typically focused on financing productive investment through the provision of medium- and long-term funding.[11] Examples of NDFIs created after 2010 include Financiera Nacional de Desarrollo de Colombia, the Green Investment Bank of the United Kingdom (subsequently privatized), British Business Bank of the United Kingdom, the Nigerian Development Bank, and the Development Bank Ghana. Several countries, including Cyprus, Greece, India, and Romania, are also considering establishing new DBs. The United Kingdom is considering setting up a new green investment bank just three years after the privatization of the original one.[12]

The policymakers and academics emphasize the pros and cons of state ownership of financial institutions. State ownership of financial institutions is often justified by market failures and development goals. NDFIs help crowd-in private investment,[13] as well as finance long-term infrastructure projects or any other large investment projects.[14] Further, NDFIs finance projects that the private sector is unwilling or unable to finance,[15] for example, in such underserved sectors as agriculture and small and medium enterprises (SMEs), highlighting social views of public interventions.[16] La Porta, López-de-Silanes, and Shleifer describe the development view that points out the necessity of state-owned financial institutions where institutional failures prevent the development of a financial sector that can meet a country's development needs.[17] The literature also highlights countercyclical lending of state-owned DFIs that compensates for a credit crunch in private lending during a recession,[18] thus facilitating economic recovery and supporting economic growth and job creation. At the same time, intervention of the state in the financial sector is often challenged by the view that state-owned enterprises only exist to provide rents to the policymakers that control them.[19] NDFIs might be used for political reasons, supporting the objectives of political elites rather than addressing market failures and supporting sustainable development objectives. For example, increases in credit near election years might be used to favorably influence election outcomes.[20] In addition, NDFIs that lend directly to final borrowers compete with commercial banks, thus potentially crowding-out private investment.[21]

Traditional development financing in the form of provision of credit at subsidized rates remains controversial as a tool to address structural issues. There are several criticisms associated with NDFIs, while new challenges are emerging. Among the criticisms is that interventions through NDFIs are a second-best option to address problems compared to more structural policies that directly address the root of the problem. For example, asymmetric information problems are prevalent in financial markets and are a key factor behind the underprovision of loans to small firms, which is often used to justify NDFI interventions.[22] However, the public sector does not have any informational advantage over the private sector albeit it has a higher risk tolerance. Strengthening credit information systems and improving the framework for pledging and executing collateral could be a more effective measure compared to NDFI lending.[23] Externalities offer a justification for the use of subsidies,

7 Inter-American Development Bank, *Unlocking Credit: The Quest for Deep and Stable Bank Lending—Economic and Social Progress in Latin America*, 2005 Report (Washington, DC: IDB, 2004).
8 OECD (Organisation for Economic Co-operation and Development), "Development Finance Institutions and Private Sector Development," http://www.oecd.org/dac/stats/development-finance-institutions-private-sector-development.htm.
9 J. C. Ferraz, "Uncertainty, Investment, and Financing: The Strategic Role of National Development Banks," in *Efficiency, Finance, and Varieties of Industrial Policy: Guiding Resources, Learning, and Technology for Sustained Growth*, ed. Akbar Noman and Joseph E. Stiglitz (New York: Columbia University Press, 2017), 105–30.
10 B. Armendáriz de Aghion, "Development Banking," Journal of Development Economics 58 (1999): 83–100.
11 E. Gutierrez, H. P. Rudolph, T. Homa, and E. Bianco Beneit, "Development Banks: Role and Mechanisms to Increase Their Efficiency" (Policy Research Working Paper WPS 5729, World Bank, Washington, DC, 2011).
12 J. Ambrose, "UK Government Planning New Green Investment Bank," *Guardian*, July 15, 2020, https://www.theguardian.com/environment/2020/jul/15/uk-government-planning-new-green-investment-bank.
13 E. Gutierrez, H. P. Rudolph, T. Homa, and E. Bianco Beneit, "Development Banks: Role and Mechanisms to Increase Their Efficiency" (Policy Research Working Paper WPS 5729, World Bank, Washington, DC, 2011); A. de la Torre, J. C. Gozzi, and S. L. Schmukler, Innovative Experiences in Access to Finance: Market-Friendly Roles for the Visible Hand? (Latin American Development Forum, World Bank, Washington, DC, 2007).
14 World Bank, *Global Financial Development Report 2013: Rethinking the Role of the State in Finance* (Washington, DC: World Bank, 2012).
15 C. Hainz and H. Hakenes, "The Politician and His Banker—How to Efficiently Grant State Aid," *Journal of Public Economics* 96, no. 1–2 (2012): 218–25.
16 E. L. Levy-Yeyati, A. Micco, and U. Panizza, "Should the Government Be in the Banking Business? The Role of State-Owned and Development Banks" (Working Paper 517, Inter-American Development Bank, Washington, DC, 2004).
17 R. La Porta, F. López-de-Silanes, and A. Shleifer, "Government Ownership of Banks" *Journal of Finance* 57, no. 1 (2002): 265–301; W. A. Lewis, *The Principles of Economic Planning* (London: G. Allen & Unwin, 1949).; A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, MA: Harvard University Press, 1962).
18 A. Micco, and U. Panizza, "Bank Ownership and Lending Behavior" *Economics Letters* 93, no. 2 (2006): 248–54;E. Gutierrez, H. P. Rudolph, T. Homa, and E. Bianco Beneit, "Development Banks: Role and Mechanisms to Increase Their Efficiency" (Policy Research Working Paper WPS 5729, World Bank, Washington, DC, 2011); M. Brei and A. Schclarek, "Public Bank Lending in Times of Crisis," *Journal of Financial Stability* 9, no. 4 (2013): 820–30; A. Bertay, A. Demirgüç-Kunt, and H.Huizinga, "Bank Ownership and Credit over the Business Cycle: Is Lending by State Banks Less Procyclical?" J*ournal of Banking & Finance* 50 (2015): 326–39.
19 J. Kornai, "Resource-Constrained Versus Demand-Constrained Systems," *Econometrica* 47, no. 4 (1979): 801–19; A. Shleifer, and R. W. Vishny, "*Politicians and Firms," Quarterly Journal of Economics* 109, no. 4 (1994): 995–1025
20 S. Cole, "Fixing Market Failures or Fixing Elections? Agricultural Credit in India." *American Economic Journal: Applied Economics* 1, no. 1 (2009): 219–50.
21 E. L. Levy-Yeyati, A. Micco, and U. Panizza, "Should the Government Be in the Banking Business? The Role of State-Owned and Development Banks" (Working Paper 517, Inter-American Development Bank, Washington, DC, 2004).
22 UNCTAD (United Nations Conference on Trade and Development), "The Role of Development Banks in Promoting Growth and Sustainable Development in the South" (United Nations, Geneva and New York, 2016); S. Griffith-Jones and J. A. Ocampo, eds. *The Future of National Development Banks* (New York: Oxford University Press, 2018).
23 Gutierrez et al., "Development Banks."

but tax subsidies and transfers could be a superior instrument to loan subsidies. Nevertheless, it can be argued that financial infrastructure reforms tend to be a long-term process, with direct state intervention providing a bridge until the constraints are lifted. Also, some societies see more value in developing a culture of credit and repayment than a culture of subsidy. In addition, fiscal constraints may favor loans over subsidies.[24] Thus, subsidized student loans, for example, are seen by some governments as a preferable tool than grants to fund education for students without sufficient means.

Even when market failures provide a justification for state intervention in the financial sector, government failures present risks that need to be addressed through an enabling environment for public intervention that is not easy to attain in countries with weak institutions. In many cases, political interference, poor governance, and sometimes outright corruption have prompted dismal financial performance and resulted in DFIs' insolvency and important quasi-fiscal losses arising from government guarantees of their liabilities. Furthermore, if public institutions enjoy advantages due to subsidies or favorable regulatory or supervisory treatment, they can create distortions and crowd-out the private sector. All these risks can be mitigated through good corporate governance, strong risk management, and an adequate oversight framework. However, creating an enabling environment is a tall order and particularly difficult in countries with weak institutions.

Overall, there is little empirical evidence that state ownership of financial institutions provides substantial benefits (relative to other types of ownership), particularly in developing countries. However, studies have not focused on DFIs. Empirical studies tend to find that public banks have higher nonperforming loans (NPLs) and operational costs as well as lower profitability compared to private banks, despite having lower funding costs in many instances. Reflecting poorer financial indicators, government-owned banks tend to display a higher likelihood of default as captured by a lower Z-score.[25] However, the evidence on whether government bank ownership is directly related to the incidence of banking crises is inconclusive.[26] On the other hand, evidence indicates that government-owned banks can help stabilize credit growth during crises,[27] although they can also be used to expand credit around election years for political purposes.[28] Using the most comprehensive dataset on public banks, Panizza recently found no evidence that state ownership has any impact on financial development and that state ownership does not explain future financial crises (albeit financial crises result in increased state ownership).[29] It also finds that public banks were less profitable during the 1995–2009 period but not afterwards and that public bank lending is less procyclical.

While successful stories are not plentiful, some NDFIs have proved effective in addressing market failures and creating new markets, while preserving financial sustainability. NDFIs can, beyond directly financing the projects, facilitate allocation of resources by assuming some project risks that the private sector is not willing to take (in risk-sharing schemes) and solving private sector coordination failures. The electronic factoring platform created by Nacional Financiera (NAFIN) in Mexico,[30] the combination of technical assistance and loans at above market rates to young and innovative companies offered by the Business Development Bank of Canada (BDC),[31] and the Techno Banking solution implemented by the Korea Development Bank (KDB) that develops a financial infrastructure to provide loans using intellectual property as collateral,[32] are examples of such interventions. Furthermore, these institutions are financially sustainable, with most of their facilities either provided at market rates or cross-subsidized with profits from other operations.

As many countries are opting to establish new NDFIs and expand operations of the existing institutions in response to the COVID-19 pandemic, this paper reflects on lessons learned from well-performing NDFIs to inform policymakers and practitioners. The paper primarily focuses on DFIs operating under micro, small and medium enterprises (MSMEs) and export/import mandates. The paper is structured as follows. Section 1 provides an overview of the NDFI landscape and takes stock of emerging challenges as reported by NDFIs themselves. Section 2 distills lessons from reviewing operations and organizational features of NDFIs around the world. Section 3 reviews NDFI interventions in the context of COVID-19, and section 4 provides concluding thoughts.

24 Gutierrez et al., "Development Banks."
25 Z-score is a common measure of stability at the level of individual institutions. It explicitly compares buffers (capitalization and returns) with risk (volatility of returns) to measure a bank's solvency risk. https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/financial-stability
26 R. Cull, M. S. Martinez Peria, and J. Verrier. "Bank Ownership: Trends and Implications" (IMF Working Paper WP17/60, International Monetary Fund, Washington, DC, 2017).
27 Brei, and Schclarek, "Public Bank Lending in Times of Crisis"; M. J. Choi, E. Gutierrez, and M. S. Martinez, "Dissecting Foreign Bank Lending Behavior during the 2008–2009 Crisis," Financial Markets, Institutions and Instruments 25, no. 5, (2014): 361–98.
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29 U. Panizza, "State-Owned Commercial Banks," Journal of Policy Reform, forthcoming.
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31 Gutierrez et al., "Development Banks."
32 E. Gutierrez, E. Klepikova, and K. Levitanskaya, "Expanding Access to Financing for Micro, Small, and Medium-Size Enterprises in Russia by Leveraging Innovative Financial Solutions: Policy Note" (World Bank, Washington, DC, 2019).

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Development Financial Institutions Landscape and Challenges

NDFIs held about 6.5 percent of global banking assets in 2018 and creation of new NDFIs has seen a revival. A recent dataset[33] reports 453 state-owned DFIs, of which 45 are multilateral and the rest are at the national or subnational level. As of 2018, these NDFIs had equity of US$1.3 trillion and assets of US$9.5 trillion that represent approximately 6.5 percent of global banking assets. The number of NDFIs substantially increased after World War II, plateaued in the 1980s, and peaked in 1990s, after the collapse of the Soviet Union. During the period of 2010–2020, 74 new NDFIs were established, with those in Africa (20) and Asia and the Pacific (19) accounting for more than half of the new institutions. Most of them have either a general mandate (40) or serve MSMEs (20).

While discussion of NDFIs tends to be centered around developing economies, high-income and upper middle-income countries alone account for about two thirds of NDFIs. The number of NDFIs in low-income countries is rather small (0.9 NDFIs on average per country) and high-income countries (3.2 NDFIs on average per country) have a similar number of NDFIs as low-income and lower middle-income economies together (figure 1). The small number of NDFIs in low-income countries can possibly be explained by difficulties in raising funds in the capital markets as well as poor institutional quality preventing these countries from successfully creating and operating NDFIs. Also, the small market size and high fixed costs of operating an NDFI may result in having few NDFIs in low-income countries, while specialized NDFIs operating in a given sector may function in larger markets. The largest numbers of national and subnational NDFIs can be found in Europe and Central Asia (22 percent of total), East Asia and the Pacific (18 percent), Sub-Saharan Africa (17 percent), and Latin America (17 percent) regions (figure 1). The number of NDFIs in North America, South Asia, and the Middle East and North Africa is substantially lower.

33 J. Xu, R. Marodon, and X. Ru, "Identifying and Classifying Public Development Banks and Development Financing Institutions" (New Structural Economics Development Financing Research Report No. 2/ Agence française de développment [AFD] Working Paper Series No. n° 192, AFD, Paris, 2020).

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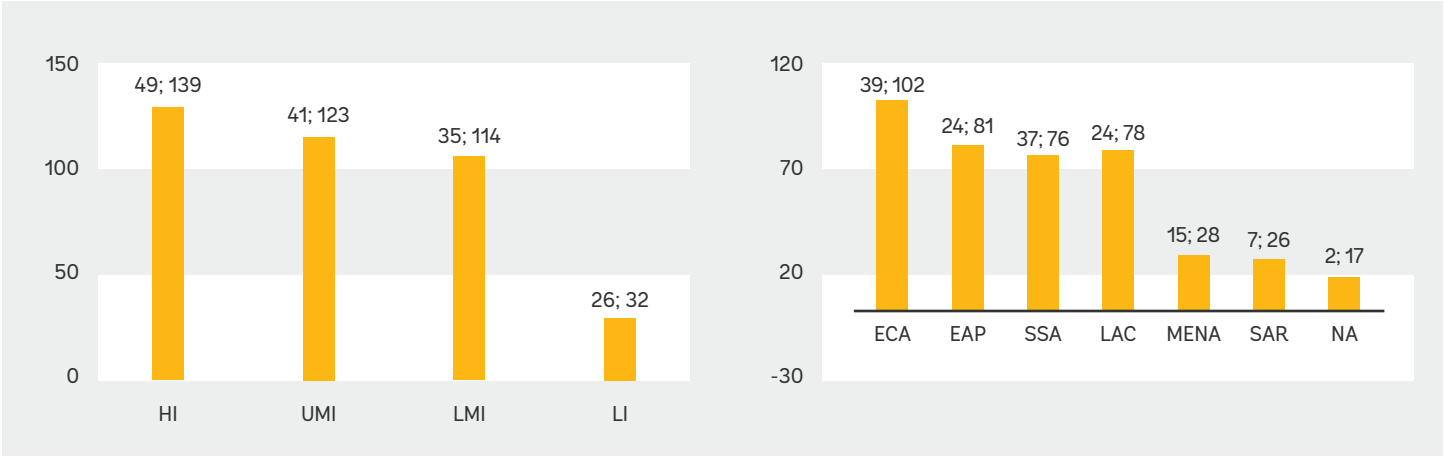
FIGURE 1. - Distribution of NDFIs by Region and Income Group



Source: J. Xu, R. Marodon, and X. Ru, "Identifying and Classifying Public Development Banks and Development Financing Institutions" (New Structural Economics Development Financing Research Report No. 2/ Agence française de développment [AFD] Working Paper Series No. n° 192, AFD, Paris, 2020); Agence française de développment Public Development Banks Database, 2020; World Bank Group calculations.
Note: First number is the number of countries, second number is the number of NDFIs. EAP = East Asia and Pacific; ECA = Europe and Central Asia; HI = high-income; LAC = Latin America and the Caribbean; LI = low-income; LMI = lower-middle income; MENA = Middle East and North Africa; NA = North America; NDFI = national development financial institution; SAR = South Asia; SSA = Sub-Saharan Africa; UMI = upper-middle income.

About a third of national NDFIs have a broad general mission of supporting economic and social development. In low-income economies, more than half of NDFIs have a general mandate, while NDFIs in countries with higher income have more specific mandates, probably because there is more than one NDFI in these countries (figure 2). NDFIs focused on supporting MSMEs and entrepreneurship have a high share in all but low-income countries, reaching 49 percent in high-income economies. In contrast, agriculture banks are much more prevalent in low-income economies.

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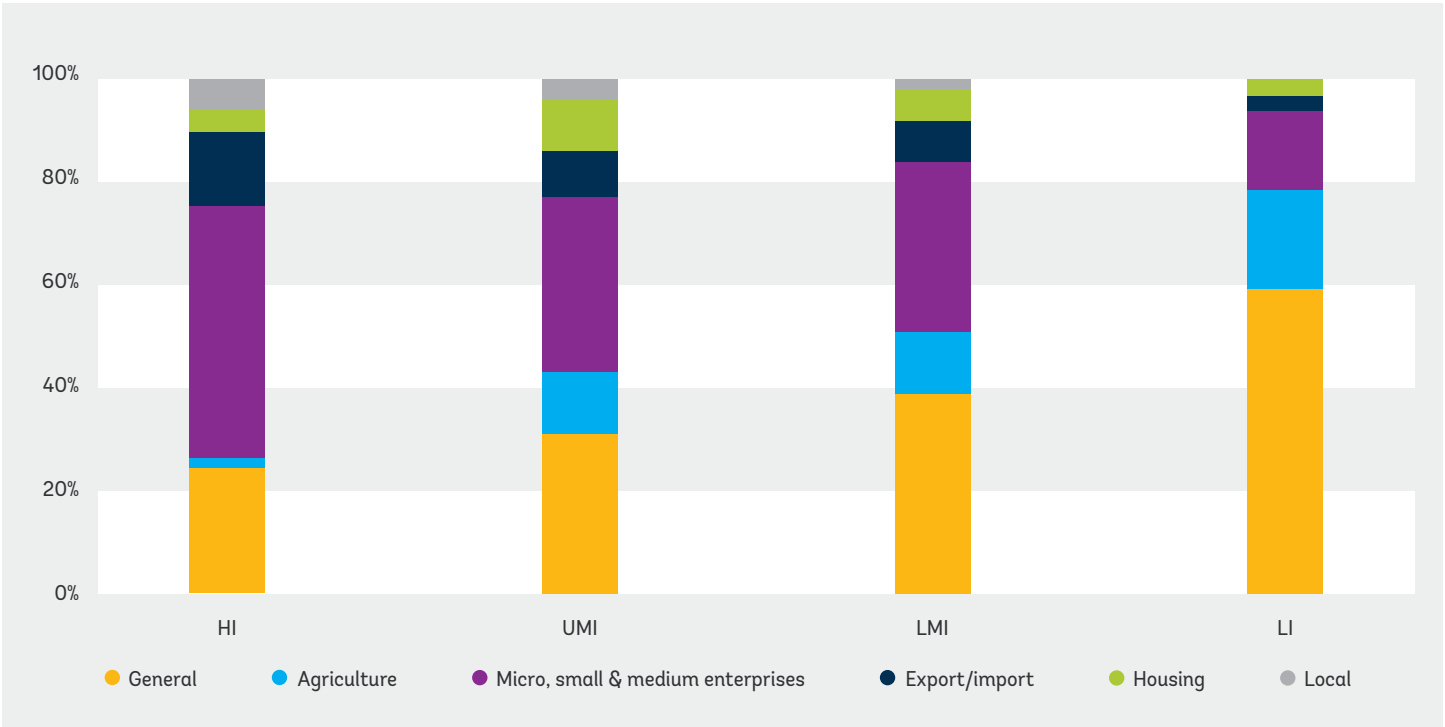
FIGURE 2. - Distribution of National DFIs by Their Mandate, by Income Group



Source: J. Xu, R. Marodon, and X. Ru, "Identifying and Classifying Public Development Banks and Development Financing Institutions" (New Structural Economics Development Financing Research Report No. 2/ Agence française de développment [AFD] Working Paper Series No. n° 192, AFD, Paris, 2020); Agence française de développment Public Development Banks Database, 2020; World Bank Group calculations.
Note: HI = high-income; LI = low income; LMI = lower-middle income; NDFI = national development financial institution; UMI = upper-middle income.

NDFIs provide credit, often at subsidized rates, using mostly wholesale funding. Almost all NDFIs provide loans directly to final borrowers. According to the World Bank 2017 Survey of National Development Banks,[34] the most common sources of funding for the 64 NDFIs in the survey are borrowing from international and national institutional investors and development assistance. Only 30 percent of NDFIs collect deposits from the public, and less than half receive deposits from government institutions. About 30 percent receive budgetary transfers (figure 3). The core activity of NDFIs is lending. Worth mentioning, about half of NDFIs provide loans at subsidized rates, funding them through cheaper lines of credit from donors, budget transfers from the government, and to a lesser extent through cross-subsidization from profitable business lines.

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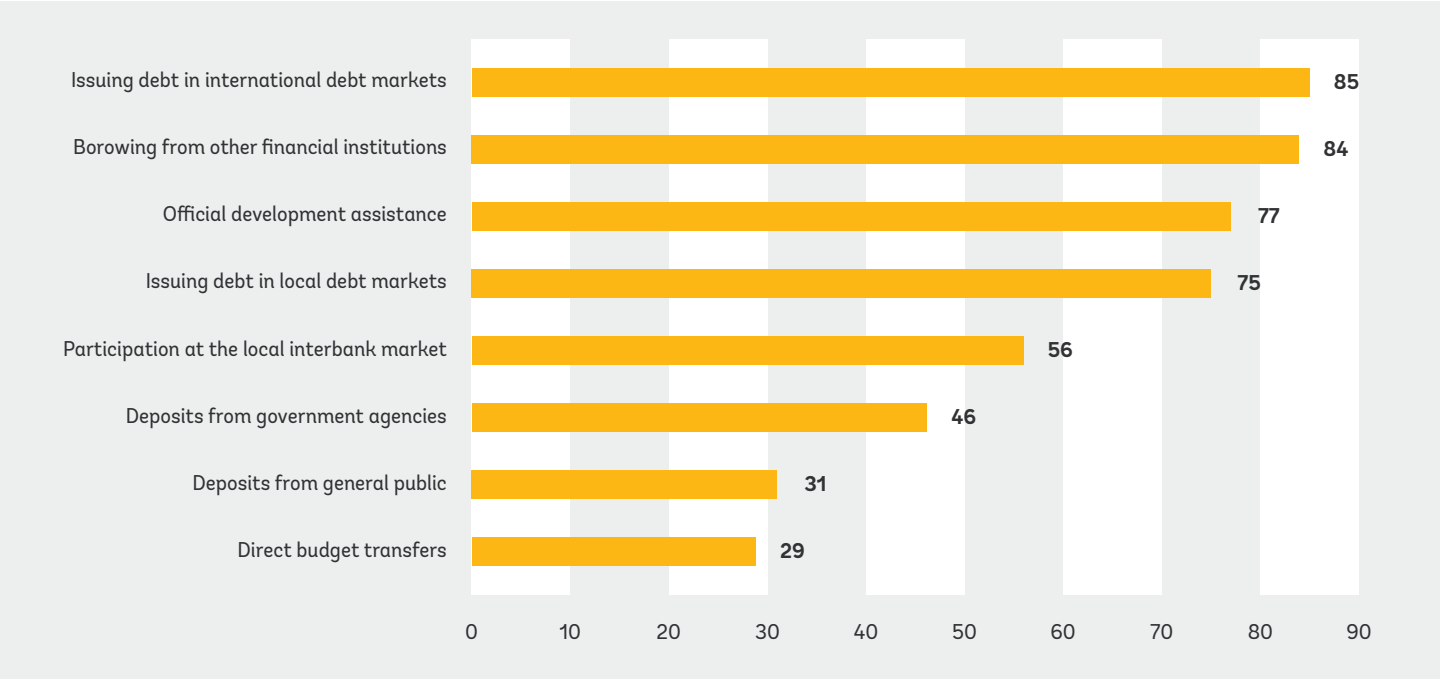
FIGURE 3 - Sources of Funding of NDFIs, Percent of Respondents



Sources: World Bank, "2017 Survey of National Development Banks" (World Bank, Washington, DC, 2018).
Note: NDFI = national development financial institution.

NDFIs played a countercyclical role during the 2008 global financial crisis, but most continued to grow, suggesting an exit problem. NDFIs in the World Bank Survey increased their loan portfolio 20 percent in 2008 and 2009 at the height of the crisis, but credit growth continued at an average 13 percent during 2010–2015. Only 18 percent of NDFIs reported negative growth in their loan portfolios, while the rest continued expanding their portfolios. NDFIs have also been an important conduit for the implementation of countercyclical activities in response to the COVID-19 pandemic as described in section 3.

Development banking is becoming increasingly challenging as market developments are forcing NDFIs toward more complex interventions. Increased foreign bank activity across the world and capital market development in many emerging markets have facilitated access to long-term finance that often prompted the creation of many NDFIs.[35] As a result, many NDFIs face a structural decrease in demand for long-term second-tier loans (that is, loans provide to financial intermediaries to on-lend to final borrowers), a traditional NDFI activity. The countercyclical role of NDFIs requires increased risk taking as commercial banks tend to retrench credit, even in the face of massive liquidity support from central banks. Also, NDFIs are increasingly focusing on funding new industries and firms, green and infrastructure projects in many cases crowding-in private sector finance by taking risks the private sector is not willing to take. This, however, introduces complexities, as the NDFI needs to operate in segments that are outside commercial banks' risk appetite, yet still viable. To act complementarily to the private sector (by providing loans, guarantees, or equity investments) and provide additionality, NDFIs are increasingly required to invest in highly specialized risk management.

34 World Bank, "2017 Survey of National Development Banks."
35 Gutierrez et al., "Development Banks."

Reflecting this reality, few NDFIs provide credit exclusively through financial intermediaries, and many NDFIs provide loan guarantees and equity investments in addition to loans. According to the World Bank Survey, only 10 percent of NDFIs provide loans and other financial services only in second tier, 40 percent only provide loans to final borrowers, and 50 percent a combination of the two. Apart from lending, NDFIs also offer loan guarantees (55 percent of respondent), private equity and venture capital (47 percent), and deposit accounts (44 percent). Other products and services are offered less frequently (figure 4).[36]

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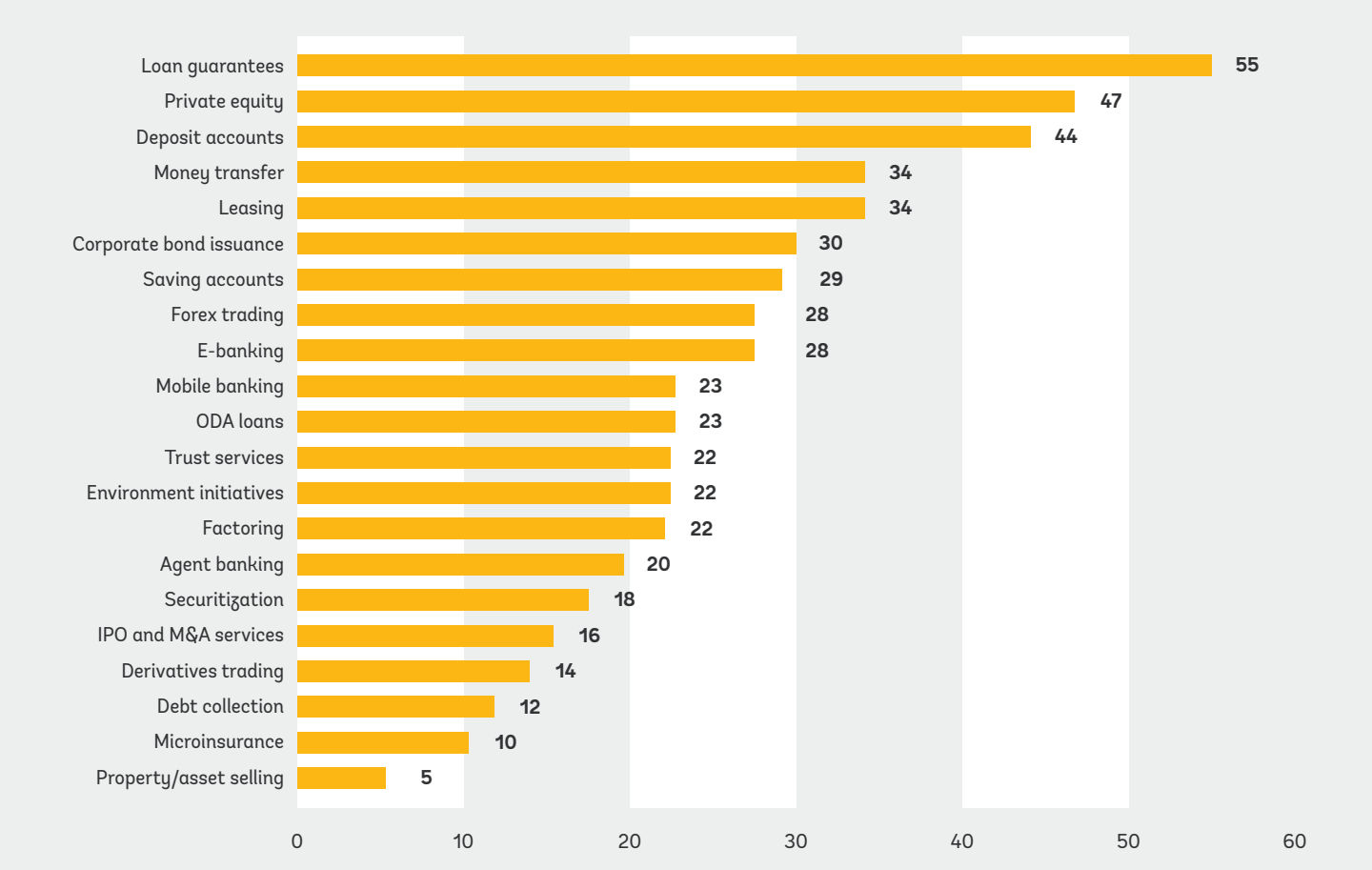
FIGURE 4 - Financial Products and Services Offered by NDFIs, Percent of Respondents



Sources: World Bank, "2017 Survey of National Development Banks" (Washington, DC: WB, 2018).
Note: Forex = foreign exchange; IPO = initial public offering; M&A = mergers and acquisitions; NDFI = national development financial institution; ODA = official development assistance.

36 World Bank, "2017 Survey of National Development Banks."

Managing risks while preserving the financial sustainability of the institution seems to be a main challenge for NDFIs in the face of political pressures to charge low rates. NDFIs often lend to high-risk clients or invest in high-risk development projects without the ability to price the risk accordingly by charging higher interest rates or fees due to lack of capacity to assess and manage risks, but also due to pressures from public sector shareholders to provide low rates. As a result, NDFIs often struggle to maintain financial sustainability. Low profitability prevents them from building an adequate capital base as well as from increasing operational expenses on staff training and operational tools (new software, office equipment, and so forth) About half of NDFIs in the World Bank Survey indicated low risk-management capacity and a low level of financial sustainability as main challenges, while 40 percent of respondents identified weak corporate governance and transparency. About 30 percent indicated high credit and market risk as well as difficulties in hiring qualified staff as main challenges (figure 5).

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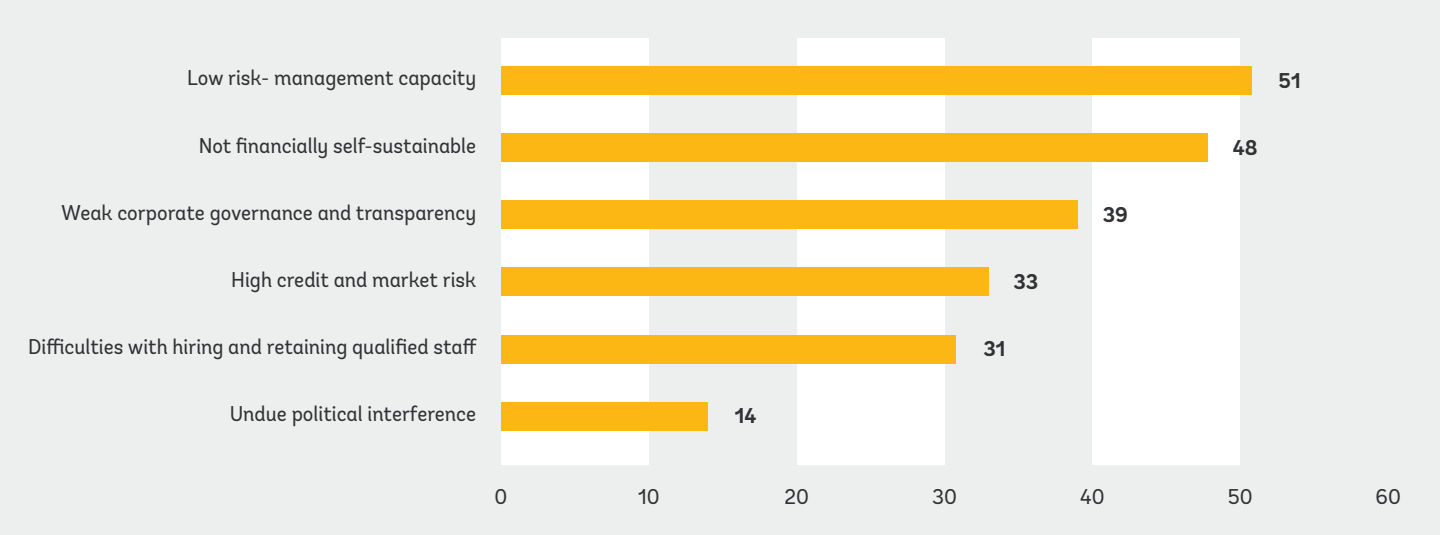
FIGURE 5 - Challenges Faced by NDFIs, Percent of Respondents



Source: World Bank, "2017 Survey of National Development Banks" (Washington, DC: World Bank, 2018).
Note: In brackets, we indicate percentage of respondents that included the given challenge in top-three challenges. NDFI = national development financial institution.

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Lessons from Development Financial Institutions Around the World

Measuring the performance of development financial institutions is a tall order as it requires measuring the economic impact of developmental operations and comparing it with the costs of operating such institutions. Measuring the economic impact of developmental operations in terms of output or employment is quite complex, let alone translating those effects into income and tax revenues. Furthermore, some would argue that even a cost-benefit analysis is not enough, as what one would like to measure is the economic additionality that a development financial institution provides. That is, the economic impact that would not be otherwise generated by the private sector.

While comprehensive impact evaluation studies on NDFI interventions are scarce, review of NDFI operations and organizational features in several countries provides valuable insights not only the upsides and downsides of NDFI interventions but also the features of NDFIs that appear to be more effective. Scarce information on economic performance can be complemented with assessment of how the NDFIs conduct operations vis-a-vis good practices. The guidance note for the assessment of state-owed financial institutions (SOFIs) under the World Bank integrated state-owned enterprise framework proposes a comprehensive approach that evaluates the functional and economic performance of SOFIs, as well as their operational environment.[37] The approach aims to compensate for data deficiencies in evaluating the economic performance of the institution by looking at what the SOFI does and how it operates, as indirect indicators of efficiency. The functional assessment evaluates the rationale for NDFI operations, potential alternative policy interventions, and the consistency between the NDFI objectives and its operations. The economic performance assessment looks at the financial performance and economic impact of SOFIs' operations. The financial performance is measured by the return on equity net of subsidies and assesses the risk-adjusted profitability through stress tests. The operational environment looks at the regulatory framework in which the NDFI operates, its corporate governance and risk management capabilities and its monitoring and evaluation function.[38] The approach is based on insights on what has worked well and what has not from more than 30 years of World Bank experience supporting NDFIs through advisory and lending operations. Following this approach, this section discusses selected lessons from well-performing institutions and illustrates how these are applied in practice by some NDFIs.

37 The World Bank, "Integrated State-Owned Enterprise Framework" (iSOEF) (Washington D.C, June 2019), Internal document.

38 This approach combines approaches previously used. For example, Francisco et al. evaluated the performance of Banadesa in Honduras and Banrural in Guatemala. M. Francisco, Y. Mascaró, J. C. Mendoza, and J. Yaron, "Measuring the Performance and Achievement of Social Objectives of Development Finance Institutions" (Policy Research Working Paper 4506, World Bank, Washington, DC, 2008). Following Yaron, they calculate a subsidy dependence index, but also develop an output index that measures the level at which the government's social objective was achieved by the development finance institution. J. Yaron, "State-Owned Development Financial Institutions (SDFIs): Background, Political Economy, and Performance Assessment" (Paper presented at the Inter-American Development Bank Conference on Public Banks, Washington, DC, February 2005 evaluates the cost-effectiveness ratio of DBs integrating both indexes. Smallridge and De Olloqui propose evaluating the health of DFIs by assessing the quality of corporate governance, financial and operational performance and impact according to a set of normative principles. D. Smallridge and F. de Olloqui, "A Health Diagnostic Tool for Public Development Banks" (Technical Notes IDB-TN no. 225, Inter-American Development Bank, Washington, DC, 2011).

LESSON 1

Identify the unmet needs and factors preventing private sector involvement and consider all public policy interventions available, beyond provision of public sector funding, to address the problem. In-depth financial sector diagnostics and mechanisms for structured dialogue with financial sector and industry representatives help identify financing gaps, factors that originate those gaps, and a menu of policy interventions to address the problem. Observed financing gaps are typically due to a variety of reasons and require multiple actions. While directly providing financial support by the state, especially at subsidized rates, is an expeditious way to alleviate the problem, it is rarely optimal or enough on its own given fiscal constraints. However, NDFIs can play an important role as part of a strategy to support financial access to certain underserved sectors at least while more structural solutions are implemented and take root using a wide range of tools. Moreover, even in systems with good financial infrastructure (credit bureaus, insolvency regimes, and so forth), banks may not expand their SME portfolio due to lack of suitable scoring methodologies to assess credit risk or because they find risk-return for the segment unattractive and would rather focus on consumer lending. Interventions to foster development of an ecosystem of non-bank specialized SME lenders or support for the development of products with embedded risk mitigants, including through demonstration effects on new lending models, may be more sustainable and scalable interventions that direct credit provision. Box 1 provides examples of identifying the unmet needs and factors preventing private sector involvement.

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BOX 1 - Lesson 1. Examples from the United Kingdom and Mexico.

The British Business Bank (BBB) was created in 2014 to address market weaknesses in the provision of finance to small and medium enterprises (SMEs) identified in research studies. Those weaknesses include (a) younger businesses with a shorter track record can find it difficult to access finance; (b) owing to the United Kingdom's concentrated finance market, there has been a narrow choice of finance type and provider; (c) businesses either lack knowledge of finance choices or are not confident in applying for them, meaning they are less likely to find the right finance; (d) all these issues are amplified in regions outside of London and the southeast of England. At moments of economic stress, BBB acts in a countercyclical manner, maintaining or increasing our market exposure while other market participants may be disengaging.[a]

The 2016 Mexican Financial Sector Assessment Program (FSAP)[b] technical note on development banks noted that at the time development bank (DBs) were increasingly considered the primary solution for addressing market failures in the provision of finance. The FSAP technical note on development banks noted that *Unit of Productivity* in the Ministry of Finance in several sectoral dialogue groups with private sector industry stakeholders had identified access to finance as a factor that impeded productivity enhancements. In response, the productivity unit contacted a DB working with that sector to explore what type of financial solutions could be designed for the sector. The FSAP noted that "increased dialogue with the private financial sector to understand what factors impede intermediation to certain markets could help identify a map for reforms (including regulatory and financial infrastructure reforms as well as technical assistance to firms or financial providers) that would enhance provision of finance. If necessary, DBs could participate supporting private providers but for the purpose of policy formulation should be considered as a complementary policy tool not the primary and first solution."[c]

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a. BBB Annual Report 2020. https://annualreport2020.british-business-bank.co.uk/uploads/documents/BBB_Annual_Report_2020.pdf.
b. World Bank Group, International Monetary Fund. Mexico Financial Sector Assessment Program: Development Banks. (World Bank, Washington, DC, 2016). https://openknowledge.worldbank.org/handle/10986/28603.
c. Mexico Financial Sector Assessment Program: Development Banks, p. 4.

LESSON 2

Set up a mandate or mission statement for NDFI focused on complementing the private sector and crowding-in private investors to provide financial solutions to identified underserved segments or projects while preserving financial sustainability. Mandates should be closely aligned to the rationale for the existence of the NDFI to ensure the institution remains focused and avoid mission creep that could end up crowding-out private sector. However, virtually all NDFIs have either broad mandates referring to economic support or social development of the countries or mandates focused on supporting a specific economic sector (for example, agriculture) or segment (SMEs) underserved by the private sector.[39] As there are many agribusinesses, SMEs, and economic projects that are well served by the private sector, the focus may be better placed on SMEs lacking collateral or credit history or firms in sectors affected by shocks. While such a level of detail should not be included in the mandate, references to providing additionality to private sector offerings by complementing and crowding-in private investors to fill financing gaps forces NDFIs to improve targeting and efficiency and ensures the mandate does not stale.[40] As argued by Gutierrez et al. a clear mandate should address the issue of positioning the NDFI against private sector institutions.[41] Preserving financial sustainability is another important element to include in the mandate, as it provides incentives for effective risk management and resource allocation and reduces fiscal costs associated with contingent liabilities. Box 2 provides example of setting up a mandate for NDFIs.

- The economic literature provides different arguments that support the operation of NDFIs, such as addressing market failures, including externalities; supporting financial market development (including through solving coordination failures and supporting development of nonbank financial providers); and providing countercyclical support in the face of increased risk aversion.[42] More recently, voices have been raised in support of NDFIs as part of an entrepreneurial state where the state plays a leading investment role across the entire innovation chain, from basic research to early-stage seed financing of companies and then financing commercialization and market entry in an effort to lead innovation-led growth.[43] While it is still unclear that NDFIs are the best tool to address such problems, a common thread in all these arguments is the need to complement and catalyze private investments. Inclusion of complement and catalyzation of private investments in the mandate would be the best way to ensure additionality of the institution and avoid crowding-out. Focusing on complementarity does not prevent the NDFI from serving certain segments on commercial terms and cross-subsidizing certain sectors where externalities are present (for example, green finance). However, it will limit the share of commercial operations in the NDFI portfolio.

- Crowding-in private sector finance means that the NDFI balance sheet is used to attract capital that otherwise would not be mobilized. The instrument alone does not imply crowding-in but the targeting does.[44] However, focusing on crowding-in private investors promotes leverage and efficient use of bank resources. It does not preclude the NDFI from directly providing credit (that is, first-tier operations). But it encourages the NDFI to cofinance larger projects and to provide guarantees as opposed to credit in retail segments.

- The obligation to preserve financial sustainability protects the NDFI from political influence that pressures the institution to underprice risks. Combined with the focus on complementing the private sector, it provides incentives for adequate risk taking and risk pricing, which ensures effective allocation of financial resources. Financial sustainability precludes large subsidized operations. While some dispute the need for NDFI financial sustainability (for example, Fernández-Arias, Haussman, and Panizza[45]) in the presence of large social benefits, most institutions lack systems to prove those benefits. A large volume of subsidized lending has many drawbacks (discussed in lesson 5), and it is not essential for development financing. Furthermore, financially unsustainable DFIs could prompt financial instability if fiscal constraints prevent restoration of NDFIs' capital buffers.

- NDFI sectoral specialization has the advantage of having specialized staff in close contact with the sector, acquiring in tightly defined areas. However, the niche needs to able to support the financial sustainability of the bank, which may be difficult in smaller markets given overhead costs. Sectorial focus also reduces the scope for risk diversification.

39 See J. de Luna-Martinez and C. L. Vicente, "Global Survey of Development Banks" (Policy Research Working Paper WPS 5969, World Bank, Washington, DC, 2012) or Xu, Ren, and Wu, "Mapping Development Finance Institutions Worldwide."
40 Few NDFIs periodically review their mandate.
41 Gutierrez et al., "Development Banks."
42 See, for example, Gutierrez et al., "Development Banks" or Griffith-Jones et al., "The Future of National Development Banks."
43 M. Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, rev. ed. (New York: PublicAffairs, 2015).
44 For example, the Development Bank of Japan (DBJ) was active in loan syndication in solar and onshore wind projects, but as these sectors matured so did their financing markets, and DBJ exited this market. The fact that DBJ does not provide concessional loans facilitated market exit as alternative funding was equally attractive. DBJ concentrates on providing equity and mezzanine capital for these projects. See A. Attridge, J. Xu, and, K. Gallagher, "Piloting and Scaling Up Clean Energy Transitions: The Role of Development Finance Institutions" (Working Paper, Agence française de développment, Paris, 2020).
45 Fernández-Arias, E, Haussman, R. and Panizza, U. "Smart Development Banks." *Journal of Industry, Competition and Trade* 20 (2020): 395–420.

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BOX 2 - Lesson 2. Examples from Colombia, Korea, the United Kingdom, Spain, and Ghana.

The decree that created Colombia's Financiera de Desarrollo Nacional (FDN) through transformation of an existing entity includes that as a guidance principle, "FDN will promote the participation of other sources of financing, through mechanisms such as the organization of consortia for the granting of credits, the subscription and guarantees of securities and participations and other forms of association" (art. 3).[a] Peer internal regulations can only finance 25 percent of any infrastructure projects that are the focus of FDN's activities, which forces the institution to catalyze large amounts of private finance.

Korean Development Bank's vision is to be "Korea's Financial Platform leading to a bright future." As such, it is "an innovative financial institution that performs more than intermediary role between borrowers and lenders, it connects all stakeholders, allows information exchanges and provides comprehensive financial services."[b] The vision points to a role in addressing coordination and information failures to foster market development.

The British Business Bank's (BBB) mission is "to make finance markets work better so smaller businesses across the UK can prosper and grow." The BBB principal business model is to work indirectly through delivery partners, which are financial services providers for smaller businesses (such as banks, nonbank lenders, equity funds, and private debt funds). The BBB notes that "For most of its programmes, this indirect approach enables us to 'leverage in' third-party funding in addition to our own, maximising the impact of the public funds we deploy."[c]

The Instituto de Crédito Oficial (ICO), Spain's development bank, is governed by the financial equilibrium principle, in accordance with its articles of incorporation. The recently created Development Bank Ghana has also incorporated financial sustainability in its mandate.

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a. Decreto 4174 de 2011.
b. KDB website, https://www.kdb.co.kr/index.jsp.
c. BBB Annual Report 2020.

LESSON 3

Design NDFI facilities focused on servicing credit-constrained borrowers to ensure additionality. While mandates and missions are high level and principle-based, they need to be operationalized by targeting the facilities to a set of borrowers or projects. To ensure a gap-filling role and provide additionality (for example, net positive economic impact), NDFI facilities should be made available only to viable credit-constrained borrowers, which are those unable to receive finance from elsewhere. Provision of funding to unconstrained borrowers would only crowd-out private sector finance and have limited net economic impact. Borrowers and projects can be constrained because they are not able to obtain any funding at all or because the funding they can obtain is not at conditions (for example, amount, maturity, or interest rate) that allow for the optimal amount of investment. Focus on credit-constrained borrowers, in a particular sector or economy-wide, allows NDFIs to take a countercyclical role as the universe of potential borrowers increases during credit bust periods. Tight eligibility criteria for accessing NDFI financing facilities and pricing above market levels are ways in which NDFIs can ensure effective targeting with a view to increasing their economic impact. In addition to the ability to identify credit constrained borrowers, effective targeting requires sophisticated risk management as NDFIs will need to assume risks that private institutions are not willing to take. Box 3 provides an example of a design of NDFI facilities.

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BOX 3 - Lesson 3. Examples from the US, Canada and Finland.

Eligibility criteria for the US Small Business Administration financial facilities states that the borrower cannot get funds from any other financial lender. The Business Development Bank of Canada (BDC) charges higher interest rates on loans to small and medium enterprises than private commercial lenders, which ensures that firms exit BDC facilities once their access to market funding is reestablished. Many national development financial institutions target younger firms that are typically credit constrained due to lack of collateral and credit history. For example, Finland's Export Credit Agency, Finnvera, offers a partial credit guarantee to firms with less than three years since their entry in the Trade Registry under its Start Guarantee program.

LESSON 4

Develop a range of instruments to leverage private sector funding. While focusing on underserved segments ensures financial and economic additionality (that is, provision of credit to viable underserved borrowers, which in turn has a positive economic impact), such focus can be done using a variety of instruments. Leveraging private sector funding means using instruments that mobilize private sector finance. This can be done through risk-sharing mechanisms or through instruments that support the development of an ecosystem of financial sector providers. Syndicated loans, partial credit guarantees, and credit enhancements are examples of the first type of products. The creation of financial platforms under which private sector intermediaries provide funding are an example of the second type. Given the limited resources at the dispose of NDFIs, mobilizing private sector funds presents clear advantages, including a more efficient use of available resources and the fact that impact and outreach can be considerably scaled up. Focusing on mobilizing private capital, including through market creation, requires innovative vision on the institution. Box 4 provides examples of a development of instruments to leverage private sector funding.

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BOX 4 - Lesson 4. Examples from Mexico.

Nacional Financiera in Mexico (NAFIN) has a range of products aimed at mobilizing private sector funding. It provides funding for renewable energy projects only in syndication, taking at most 50 percent of the risk of the project. It provides partial credit guarantees on small and medium enterprise (SME) loan portfolios to financial institutions. NAFIN initially auctioned its guarantees, fixing the coverage and allocating guarantees to the banks that offered the lowest interest rates for the borrowers. In 2014, they changed the auction to allocate to banks requesting the lowest coverage and capping the rates on the loans to final borrowers at the official 28-day interbank rate plus 700 basis points. NAFIN also offers pari-passu guarantees covering from 50 to 100 percent of loan loss (the latter only in disaster or emergency situations). The introduction of first-loss schemes and the auction has reduced the average public sector coverage of all guaranteed loan portfolios to below 40 percent, increasing the amount of risk transferred to the private sector and the outstanding amount of SME loans guaranteed. NAFIN also provides pari-passu guarantees on commercial papers issued by firms. Its electronic reverse factoring platform, launched in 2017, helped develop the factoring market in Mexico, substantially increasing the volume of operations by automatizing and simplifying the process. Initially, financial intermediaries participating in the platform needed to borrow funds from NAFIN to purchase the invoices, but now they can use their own funding as well.

LESSON 5

Use preferential lending sparingly when large externalities can be justified. NDFIs need to ensure that when subsidies are necessary, they are channeled in a transparent and nondistortionary way. Traditional development financing is associated with the provision of preferential lending, which typically involves providing some form of subsidy.[46] Interest on subsidized loans does not cover the administrative, funding (at market rates), capital, and credit risk costs of the loan[47]. NDFIs can receive budgetary allocations from the government to subsidize the pricing of their financial products. They can receive credit subsidies in the form of loans at a rate below the one at which the NDFI could fund itself. NDFIs can also receive other subsidies; for example, they can be exempted from tax payments or constitute provisions for loan losses. Finally, NDFIs can cross-subsidize the price of certain financial products using profits from commercial operations to cover costs. In many cases, NDFIs were created to provide subsidies, circumventing budgetary restrictions, by exploiting their leverage capacity. Subsidized lending is often used to address market failures that prevent access to finance. However, it is the second-best option at least as it addresses the symptoms instead of the cause of the illness, and it has unintended secondary effects. Furthermore, often loan pricing is not the problem but lack of access due to lack of credit history or collateral, and borrowers will be able and willing to pay higher rates than the ones offered by the NDFI if they were just offered credit. For these reasons, subsidies should be used sparsely and when the positive effects are likely to outweigh the associated inefficiencies. The latter are related to the size of the subsidies and how the subsidy is funded and operated. Furthermore, it is important to ensure that subsidies are channeled in a transparent way to facilitate accountability. Box 5 provides examples of the use of preferential lending and subsidies by NDFIs.

- Large volumes of subsidized lending can introduce several types of distortions. For example, when a large share of credit does not respond to interest rate signals, monetary policy effectiveness through the credit channel is reduced.[48] The Central Bank hence must increase rates more to attain the same level of credit contraction. De Bolle estimated that an increase of 1 percentage point in the share of Brazilian Development Bank (BNDES) lending in gross domestic product (GDP) increased real interest rates by 0.4–0.5 of a percentage point in the following quarter.[49] Large volumes of subsidized long-term lending may also negatively affect capital market development as it reduces potential borrowers' incentives to search for funding in capital markets.

- The way in which the subsidy is funded may have additional negative consequences. For example, if subsidies are provided by taxpayers and result in increased sovereign debt, interest rates on public debt will increase as the fiscal situation deteriorates. If credit subsidies are provided by investors via compulsory investment requirements, it could affect savings behavior and overall financial sector development. If the NDFI does not receive subsidies, it might end up compromising its financial sustainability, which in turn could pose risks to financial stability and fiscal risks through contingent liabilities arising from NDFI recapitalization.

- A large provision of subsidized lending by NDFIs can also undermine their operational efficiency. As the NDFI offers large volumes of credit at below-market rates, it is sure to have substantial demand for its product, which will in turn reduce its incentives to innovate and develop new and more sophisticated products to address market failures. Furthermore, provision of subsidized lending by an NDFI provides incentives to policy makers to influence operational decisions for political purposes and could even provide incentives for corruption among NDFI employees.[50] Political interference and corruption in turn affect the allocative efficiency of NDFI loans.

- Focusing subsidized lending on activities with potentially large externalities reduces overall subsidized lending and helps ensure that the positive effects outweigh potential distortions to create net positive developmental outcome. Socially and environmentally sustainable projects, innovation, infrastructure, and capital market development are, for example, areas that likely pass the externality test.

- The distortions arising from the method of subsidies funding depend on country characteristics, but, in general, all forms present some drawbacks. Credit subsidies provided by foreign development partners or taxpayer funded subsidies in countries with strong fiscal positions are less distortionary than credit subsidies provided by mandatory investments. However, if those loans are provided in hard

46 The same arguments in this discussion apply to the provision of subsidized guarantees.
47 The capital cost for a NDFI is typically lower than that of commercial entities and linked to the financial sustainability requirements of the shareholder (for example, sovereign funding costs or inflation).
48 M. Bonomo and B. Martins, "The Impact of Government-Driven Loans in the Monetary Transmission Mechanism: What Can We Learn from Firm-Level Data?" (Texto para discussão nº, 419, Banco Central do Brasil, Brasilia, 2016).
49 M. de Bolle, "Do Public Development Banks Hurt Growth? Evidence from Brazil" (Policy Brief 15-16, Petersen Institute for International Economics, Washington, DC, 2015).
50 Several transactions in Brazil's Caixa Economica Federal (CEF), in essence a DB that collects retail deposits to stimulate savings and provides subsidized finance for social purposes, were suspected of having received favorable terms in exchange for bribes, and several vice presidents of CEF were suspended in early 2018 as result of the investigation by the federal prosecutor's office.

currency and the income of the ultimate borrowers is denominated in local currency, such funding may not be very attractive as it exposes the NDFI to foreign exchange-induced credit risk. Subsidies provided by cross-subsidization from NDFI commercial activities will introduce limited distortions only if there is a level playing field and the commercial activities of the NDFI do not crowd-out private financial providers.

- To foster accountability of the NDFI vis-a-vis society it is important to report on the amounts of subsidies mobilized and the profitability of the institution before subsidies. Budgetary resources are typically transparent as they are disclosed in the budget, but credit subsidies provided by the treasury or through mandatory investments are particularly opaque, and the cost of such subsidies should be calculated and disclosed. Also, NDFIs should disclose their return on equity before subsidies to assess the sustainability of the institution and whether profitability is enough to replenish the capital of the institution or if that would require tax-payer assistance.

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BOX 5 - Lesson 5. Examples from Brazil, Mexico, Canada, and Korea.

In September 2017, the Brazilian legislature approved a bill to phase out the long-term subsidized credit rate, known as TJLP, over the next five years, replacing it with a market-based rate called the TLP. The TLP is linked to the sovereign cost of funding using a combination of an inflation indexed five-year sovereign bond, actual inflation, and the old TJLP. By aligning the Brazilian Development Bank (BNDES) lending rates to market funding costs, the reform aimed to reduce the distortionary effects that the large amount of subsidized credit had on monetary policy and credit allocation and to reduce fiscal costs. As BNDES was largely funded through the issuance of treasury loans, the credit subsidy that the institution received (the difference between the rate of the five-year sovereign and the TJLP) reached 0.72 percent of gross domestic product in 2015. A review of the operational policies in 2017 also aimed at improving targeting of subsidies.[a]

Mexican development financial institutions have typically received subsidies for targeted programs from budgetary allocations. For example, budgetary allocations to the entrepreneurship fund were used to provide counter-guarantee resources for the Nacional Financiera (NAFIN)–operated partial credit guarantee scheme for small and medium enterprise loans, with a view to subsidizing the guarantee fee. Budgetary resources were also allocated to Financiera Nacional de Desarrollo (FND) to cover expected losses in certain loan facilities so the institution could pass funding to borrowers at rates that included zero credit risk premium. Under the presidential administration that began December 2018, budgetary subsidies to Mexican development banks have been greatly reduced.

The Business Development Bank of Canada provides answers on its webpage to the questions most frequently received, which include “Do your offer grants or subsidies?” and “So you don’t give money? Shouldn’t a crown corporation be helping Canadians?”[b]

Korea Development Bank reports that profit generated through fair competition with private financial institutions is their main resource for policy finance.

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a. C. Frischtak, C. Pazarbasioglu, S. Byskov, A. Hernandez Perez, and I. A. Carneiro, *Towards a More Effective BNDES* (World Bank, Washington, DC, 2017).
b. Business Development Bank of Canada, general FAQ: https://www.bdc.ca/en/about/what-we-do/faq.

LESSON 6

Operate the institution as a financial sector company not a public agency. In many instances, NDFIs operate like public agencies focused on compliance with administrative processes and record keeping rather than on servicing customers. NDFIs, particularly those providing subsidized lending, often have cumbersome and lengthy procedures for loan authorization or product development. The strategic plans of financial institutions present a good opportunity to optimize procedures, as was done for example, by the Croatian Development Bank (HBOR). Process simplification and use of technology can substantially improve operational efficiency in product delivery, and BDC provides a good illustration of how this can function in practice. Operational efficiency also requires adequate human resources, which are often compromised by NDFIs' inability to hire qualified professionals due to the obligation to comply with public sector hiring procedures and salary guidelines. Operating the NDFI as a joint stock company provides flexibility in human resource management and procurement processes as the institutions operate under private company law. Furthermore, it allows for the entrance of minority private sector shareholders, as in the case of Financiera Nacional de Desarrollo (FND). Two-tier hiring systems, applied for example by KDB, can also be developed to provide flexibility to the institution without creating disparities with other public sector employees performing similar tasks. Flexibility in operation does not amount to discretion, as public institutions, even if operated under private company law, can still be subject to oversight by public sector institutions. However, it is important to ensure that the role of public oversight organizations is focused and targeted, avoiding overlap with prudential oversight and interference in the financial institution's business. Examples from Brazil and Mexico, as discussed in box 6, illustrate the negative effects on bank operations and governance from comptroller entities' overzealous oversight activities that focus more on individual transactions than portfolio management.

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BOX 6 - Lesson 6. Examples from Croatia, Canada, Colombia, Korea, Brazil and Mexico.

The Croatian Bank for Reconstruction and Development, HBOR, the Croatian development bank, included in its 2020–24 strategy, actions to improve operational efficiency, including (a) mapping key processes and identifying areas for process improvement, (b) developing a decision matrix and delegating the decision-making authority to a lower level, and (c) shortening the process of loan processing and decision making.

Business Development Bank of Canada (BDC) loans can be applied for online. The online application contains a series of questions on the business, the specific project that necessitates the loan, and shareholder information. Once the application is complete, processing time varies between one to five business days. Once the BDC authorizes the loan, it usually takes 4 to 48 hours to receive the money.

Financiera de Desarrollo Nacional is a "Sociedad de Economia Mixta" (public-private company) that is constituted with capital from the public sector and private shareholders and as such operates under private company law. It is overseen, by the *Financial Superintendence of Colombia* and by of the *Office of the Controller.*

Korea Development Bank distinguishes between regular employees tasked with general duties and professional employees performing specific tasks, whose compensation and position are determined through individual contracts. Regular employees are hired through public recruitment once or twice a year, while professional employees are hired on an as-needed basis.

In Brazil, the Controller General annually audits for compliance with administrative regulations applying to state-owned companies, use of earmarked funds, and application of resources. The Tribunal de Contas da União (TCU) monitors financial performance (peer analysis of financial and efficiency indicators), compliance with internal policies (akin to internal auditor), and financial accounts. It also investigates specific transactions when it receives a complaint. In 2017, TCU introduced a moratorium securitization of performing assets due to concerns that it would affect the solvency of state-owned banks as the it would dispose of good assets. Such moratoria limited Caixa Economica Federal's options to improve capitalization ratios.

The office of the Comptroller in Mexico interpreted the development bank obligation of preserving financial sustainability, embedded in their mandate, as applying to every transaction as opposed to the whole portfolio of assets. Review of all nonperforming loans by the comptroller office hampered the bank's risk appetite. The financial sector reform of 2014 removed financial sustainability from the DB's mandates (incorporated into law). Nowadays financial sustainability requirements are included in the business plans of the institution.

LESSON 7

Ensure that the institution is effectively managed, and the incentives of management and staff are aligned with the objectives of the institution through effective corporate governance, risk management, and mechanisms to evaluate the performance of NDFIs. Poor corporate governance is one of the main reasons why state-owned enterprises (SOEs), including DFIs, fail to deliver on their developmental objectives and experience financial distress. The state should play an active shareholding role in NDFIs; however, the institutions should have operational independence to develop and price products and have adequate risk management capabilities. Mechanisms to evaluate management performance as well as the developmental impact of the institution should be introduced to align incentives through the institution. Box 7 provides examples on effective corporate governance, risk management, and mechanisms to evaluate the performance of NDFIs.

- The adoption of Organisation for Economic Co-operation and Development (OECD) Standards for Corporate Governance of SOEs and the recommendations of the Financial Reporting Council in its Code and Guidance for Corporate Board Effectiveness (2018) are important steps to enhance the operation of NDFIs.[51] As per those, the state should (a) actively participate in shareholder meetings, (b) establish professional supervisory boards with merit-based transparent board nomination processes, (c) monitor the performance of the NDFIs, (d) develop a disclosure policy for NDFIs, (e) maintain a dialogue with external auditors and state oversight authorities, and (f) establish a remuneration policy for SOE boards that supports the goals of the NDFI and attracts and motivates qualified professionals. The Development Bank Ghana (DBG), for example, is adopting many of those principles with World Bank support.

- To effectively manage an NDFI, it is essential to have appropriate risk management capabilities and ensure that risks are properly priced with costs, including risk premiums, either included in the price of the product or compensated for by subsidies. Financial institutions' boards must formulate risk tolerance policies and be able to ensure appropriate pricing. Even in cases where risk management capabilities exist to properly determine prices and have informed discussions with public sector shareholders on the required amount of subsides for specific programs, NDFIs do not always have the ability to determine terms of conditions of subsidized programs due to political interference in operational decisions.

- Performance-related management contracts that set the responsibilities for and provide incentives to top management for effective management and remuneration to staff based on attainment of mandates help ensure incentives are aligned throughout the institution to achieve mandates. Korea for example has implemented several good practices in management performance evaluation.

- An effective monitoring and evaluation (M&E) framework to assess the economic impact of the operations of DFIs enhances institutions' effectiveness in achieving their developmental goals. M&E systems enhance accountability on the use of public resources and provide incentives to improve operational efficiency. In most cases NDFIs' developmental performance is assessed by resources intermediated or clients served, which can induce them to expand activities (volume and market shares), sacrificing quality, and compete with private providers. Comprehensive M&E systems include monitoring of key performance indicators (KPIs), as well a program to conduct rigorous impact evaluation studies of DFIs' main programs. KPIs go beyond outputs (for example, clients in certain segments, loans disbursed), including outcome indicators (for example, jobs created or maintained or an increase in sales thanks to the financial support provided). KPIs can provide a view of the contribution of NDFIs' operations to attain economic outcomes (for example, increase in exports or employment), but also be able to attribute such outcomes to NDFIs' operations (that is, assess the additionality of SOFIs' operations) rigorous impact evaluation studies are required. KPIs are also useful to monitor financial inclusion objectives (that is, clients accessing formal financial services for the first time) or intermediate outcomes (for example, private funding mobilized using public resources allocated to SOFIs). KPIs reflecting developmental goals should be well defined and measurable to avoid focus on financial performance KPIs, which could in turn distort incentives. Information from M&E systems should be used to scale, adapt, or eliminate programs and products, as required. Having M&E unites reporting directly to the board as opposed to management and making data available to research institutions to conduct studies to enhance the credibility of the evaluation process.

51 OECD, "Development Finance Institutions."

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BOX 7 - Lesson 7. Examples from Ghana, Korea, Mexico, Brazil, and the United Kingdom.

Development Bank Ghana (DBG) corporate governance arrangements include an independent board (at least 60 percent of the board is to be composed of independent directors) competitively recruited with the assistance of a credible search firm and subject to fit and proper test by the Central Bank. The chairman of the board shall be appointed by the board, from among its independent members, by simple majority. The shareholders are responsible for certain matters related to business and operations, capital structure and composition, and governance. The board provides the strategic guidance of the DBG, conducts effective monitoring of management, and is accountable to the shareholders. The managing director, with the support of key management personnel, is responsible for the day-to-day operations of the DBG and for execution of the strategy and plans approved by the board.

In Korea, performance agreements for the head of state-owned enterprises were introduced in 2014. Annual performance evaluations are conducted by the Financial Services Commission on state-owned banks (Korea Development Bank, Industrial Bank of Korea, Export-Import Bank of Korea). Evaluation indicators are both quantitative and qualitative and relate to general management functions, as well as key projects. Indicators in the first category relate to strategy implementation, financial performance, human resource management, and customer satisfaction. Project indicators include attainment of goal funding levels, project financial performance, loan delinquency levels, support for corporate restructuring, or small and medium enterprises growth. The report is used to determine bonuses for management and employees and for decisions regarding chief executive officer continuity.

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Mexican developmental banks set risk metrics to formulate their risk appetite and capacity. Those metrics vary depending on the nature of the institution. For example, Trust Funds for Rural Development (FIRA), which is a trust fund providing guarantees and loans to financial intermediaries for agricultural and agribusiness projects, uses value at risk limits. Financiera Nacional de Desarrollo (FND), which is a development agency providing credit to the rural sector directly and through financial intermediaries, sets limits on the leverage ratio. Both institutions have a comprehensive credit assessment process, including assessment of project viability (including managerial skills, market outlook, cash-flow revenues, debt service capacity, and, if applicable, currency volatility effects), credit history of the borrower, and evaluation of guarantees. Pricing of loans is based on the cost of funding, including capital cost and credit risk premium calculated based on expected loss and operational costs. FND prices apply to the product, while FIRA calculates different risk premiums for different counterparties within the same product. Pricing calculations have been used in negotiations with the Ministry of Finance to determine the amount of budgetary subsidy needed to preserve the sustainability of the institution in the case of special programs launched at preferential rates. However, the institutions have not always obtained the calculated subsidy. For example, FND suffered important losses in the operation of the Small Agricultural Producers Financing Program launched in 2014 with a 7 percent rate announced by the office of the President of Mexico.

Brazilian Development Bank (BNDES) launched a corporate project to enhance monitoring and evaluation (M&E) in 2013, shortly after the creation of a dedicated M&E unit under the Department of Strategy and Planning. The BNDES M&E system comprises systematic project analysis and impact evaluations for counterfactual analysis. Systematic analysis includes ex-ante analysis of projects through result chains and monitoring performance of project indicators. For example, Innovation project key performance indicators (KPIs) include research-hours supported by projects while Infrastructure KPIs include reduction in travel times, population with access to sanitation services, or renewable megawatts generated by projects. Impact evaluations are done in collaboration with research institutions that form part of a network for evaluation, discussion, and support and that include the World Bank, the Inter-American Development Bank, local universities, and the Central Bank. The 2001 Access to Information Law substantially increased the BNDES project data available to the public and spurred an interest among academics. BNDES evaluates the developmental impact of its operations over a two-year cycle and has already published two effectiveness reports (2015–16 and 2017–18), which report KPIs and disclose the outcomes of impact evaluations conducted internally and those published by external researchers. In addition to the effectiveness report, a recommendations report is prepared for management that incorporates M&E findings.

The British Business Bank (BBB) agrees on specific KPIs and targets for each of its four objectives with its shareholders, against which the bank is held accountable. Objectives include increasing the supply of funding, diversifying the financial sector, better providing information, and efficiently managing taxpayer resources. KPIs for these objectives are respectively (a) stock of finance supported through its finance programs directly and leveraged in third-party funding; (b) percentage of finance we support through non–Big Five banks; (c) achievement of key targets associated with key aspects (awareness, consideration, usage, and outcomes), as well as delivering strategic milestones. Assessed using a “Red Amber Green” status, where green indicates met, amber indicates partially met, and red indicates not met. At year-end, the Board and Shareholder examine an internal report on activities and agree an assessment of performance delivery of specific initiatives, as well as contributions through the year on the key aspects of research and publications, policy engagement, opinion engagement, and program development; (d) to earn greater than the government’s medium-term cost of capital over the next five years measured by the five year gilt rate at the beginning of the plan. Considering performance against KPIs the Remuneration Committee determines the corporate performance pay-out. The BBB research program includes third-party independent assessments of programs. In a value for money report published by the National Audit Office (NAO) on the BBB in January 2020, the NAO found that “the British Business Bank has performed well against its objectives,” enabling additional growth in UK small and medium enterprises (SMEs) as a result of its activities. It also said the bank “had clear performance metrics and carried out evaluation of its impact on SMEs. Overall, it has been performing well and SMEs have been growing as a result of its activities.”[a]

a. National Audit Office, “British Business Bank” (Report by the Comptroller and Auditor General to the UK House of Commons, 2020), https://www.nao.org.uk/wp-content/uploads/2020/01/British-Business-Bank.pdf.

LESSON 8

Ensure that NDFIs are properly supervised by the financial supervisory agency and that the institutions operate on a level playing field. NDFIs should operate in a regulatory environment that supports their effective performance. In the case of DBs, the main regulatory issues relate to prudential regulation and competition. Effective prudential oversight helps ensure financial sustainability of the institution while a level playing field among DBs and private participants reduces distortions that negatively affect net economic performance. An example of supervision of the NDFI is provided in Box 8.

- DFIs' and DBs' oversight framework should be based on their activity and risk profiles and not on the nature of the shareholders. Prudential regulation aims to preserve the financial sustainability of the institution to protect depositors and avoid contagion effects that endanger the stability of the financial sector. Assuming that in the event of insolvency a DB's liabilities will be honored by the government may not be realistic, particularly in countries with weak fiscal positions, and the DB may need to be restructured.[52] If the institution is systemically important because of its size, it should be regulated as other private systemic institutions, regardless of whether it takes deposits or not. To minimize potential instability effects in case the state faces difficulties to recapitalize institutions, DBs should have issued subordinated debt instruments that they could convert into capital if needed and private sector institutions should be able to invest in those instruments. This likely requires legal modifications if the DBs operate under laws that determine the state-ownership nature of the institution, but it will ensure smooth resolution in the event of instability. Development banks are exposed to credit, market, and operational risks. They should be subject to international regulatory standards applying to private commercial banks regarding how to manage those risks, including through exposure limits (for example, on large exposures and related-party lending and on net open foreign exchange positions), as well as on the allocation of capital and reserves. Supervision should be conducted by politically independent supervisory authorities to ensure supervision is intrusive and enforcement appropriate.

- NDFIs should not receive preferential tax treatment and subsidies not available to private institutions or be |exempted from prudential regulatory requirements—either de jure or de facto through lax supervision.[53] To the extent that DBs operate in the same markets and segments as private institutions, this can create an uneven playing field that favors the expansion of the NDFI at the expense of private sector competitors, negatively affecting overall financing volumes and discouraging entry and market development as previously illustrated by the BNDES discussion.

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BOX 8 - Lesson 8. Examples from Brazil.

The Brazilian Development Bank (BNDES) is supervised by the Central Bank of Brazil. The BNDES, as a development bank, is in principle not subject to Basel rules that were devised for commercial banks. But following good practices, most prudential regulations apply to it. The two main exceptions relate to concentration exposures (albeit compliance is envisioned by 2024) and the designation as a systemically important institution (The BNDES was not considered systemically important in 2018, though smaller institutions were). Worth noticing is that for prudential purposes state-owned enterprises are not considered related parties to state-owned banks (art. 34 of Banking Law). Central Bank of Brazil regulations restrict BNDES operations in certain areas (for example, derivatives, except for hedging purposes). The BNDES is not tax-exempt but receives subsided funding from the treasury (the new funds will be at market rates) and Workers Guarantee Fund.

52 Even if liabilities can be covered, this would require bailing out the institution, and the government would incur fiscal costs, as in the case of bailing out a too-big-to-fail private institution. Hence, the argument that justifies stricter supervision of too-big-to-fail or too-interconnected-to-fail private institutions can also be applied to SOFIs, especially large ones.

53 Also, they can benefit from explicit or implicit public guarantees on their liabilities that, provided the state has a strong fiscal position, may provide an advantage vis-a-vis smaller institutions; but typically large commercial banks will enjoy an implicit guarantee as well.

LESSON 9

When the environment is not conducive to NDFI effectiveness, operate in second tier[54] and raise funds in international capital markets. While NDFIs can be an effective policy instrument if effectively managed, development banking requires a level of institutional development that is difficult to attain in many countries. Operation under private company law, politically independent boards, the absence of corruption, a level playing field, and politically independent supervisors are some of the most difficult factors. In these cases, limiting NDFI operations to second tier helps limit political interference as credit decisions are ultimately taken by private intermediaries, which helps ensure project viability.[55] While the approach may look restrictive, NDFIs operating on second tier allow for substantial impact and countercyclical activities through guarantees and the creation of financial platforms. Issuing bonds in international capital markets, at least to fund a small portion of the balance sheet, subjects the institution to market discipline that helps mitigate shortcomings on governance and oversight. Second-tier NDFIs can develop project preparation capabilities and provide technical assistance to ensure that the benefits of operating in first tier are not lost. Box 9 provides examples of operating in second tier and raising funds in international capital markets.

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BOX 9 - Lesson 9. Examples from Mexico.

Mexico a priori does not have the most favorable operational environment for successful functioning of national development financial institutions (NDFIs). According to the 2019 World Governance Indicators published by the World Bank, Mexico ranks in the bottom quartile on the control of corruption indicator and below the median in government effectiveness among all countries. Product market regulation is less friendly, and price controls are more prevalent than in most of the Organisation for Economic Co-operation and Development (OECD) countries according to the OECD Product Market Regulation Indicators. There are no fit and proper criteria for chief executive officers of most Mexican NDFIs, and they are appointed by the president. The financial regulator, though it does supervise the institutions, does not have approval authority over the appointment of board members or the chief executive officers of the institutions. Nevertheless, the 2016 Financial Sector Assessment Program found that NDFIs' operations did not pose major fiscal or financial stability risks. However, it raised concerns regarding the distortions and inefficiencies that the expansion of their first-tier operations could create.

Among the Mexican development financial institutions, Trust Funds for Rural Development (FIRA) and Nacional Financiera (NAFIN) have demonstrated innovation and are considered referents for other development banks in their areas. Both operate largely in second tier, with NAFIN also participating in syndicated project financing of renewable energy products but only taking up to 50 percent of project risk. It also provides technical support for project preparation. FIRA has an important regional presence and a crew of agronomists that support the structuring of bankable agricultural projects, including through the provision of technical assistance to final borrowers, and share agrifood market information with the first-floor financial intermediaries. The approach seeks not only to finance production but also to create financing mechanisms to turn producers into exporters, suppliers of agribusiness, and final consumers. FIRA has the capabilities and market-intelligence of a first-floor institution, structuring projects but offering them to private intermediaries for financing, which ensures the project passes the market test, and it is not subject to political interference. In fact, FIRA has more branches than Financiera Nacional de Desarrollo (a Mexican first tier agricultural developmental financial institution) and a similar number of employees despite operating only on second tier.

Both FIRA and NAFIN are rated by international agencies and issue securities in capital markets. NAFIN was the first issuer of green bonds in Latin America. FIRA has been the first issuer in Latin America of social-themed bonds that were used to finance productive projects benefiting rural women.

54 First-tier lending is retail lending, under which DFIs interact directly with end customers. Second-tier lending is wholesale lending, under which DFIs provide financing to private financial institutions that then select and assess loan applications of end customers.

55 Provided the private banking system is not captured by oligarchs engaging on related party activities.

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COVID-19 Response by National Development Financial Institutions

The COVID-19 pandemic has had a devastating effect on the global economy and trade. The contraction of activity in 2020 was unprecedented in living memory in its speed and synchronized nature, and world economic growth is being projected to drop by 3.3 percent.[56] To offset the negative effects of the collapse in consumer demand as well as closures and the slowing down of many industries, governments around the world implemented massive financial support programs. By March 2021, Japan had spent as much as 44.2 percent of its GDP on a variety of fiscal and monetary packages; Germany had spent 38.8 percent, Canada—18.7 percent, and the United States—27.9 percent.[57] The International Monetary Fund (IMF) estimates suggest that the contraction could have been three times as large if not for extraordinary policy support.[58]

National development banks and credit guarantee institutions, using their own resources as well as those included in COVID-19 stimulus packages, have been an important tool in the crisis response, supporting economic sectors and individual companies affected by the pandemic. NDFIs have been acting in line with their mandates by providing countercyclical lending, mobilizing and distributing resources, and overall supporting production and employment.[59] Often, this meant offering liquidity with generously reduced rates of interest, preferential repayment terms, and eased conditions of repayment. In the first half of 2020, Kreditanstalt für Wiederaufbau's (KfW) financing vol¬ume more than doubled as a result of coronavirus aid programs.[60] By the end of March 2021, loan applications had topped 127,000. KfW COVID loans carry very low margins, and the federal government assumed close to full liability. Turkey's credit volume, supported by the Credit Guarantee Fund, partly funded by the government, doubled during the pandemic. The bulk of those loans were directed to SMEs and shopkeepers and were

56 IMF (International Monetary Fund), World Economic Outlook: Managing Divergent Recoveries (Washington, DC: IMF, April 2021).
57 IMF Database of Fiscal Policy Responses to COVID-19, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19.
58 International Monetary Fund, *World Economic Outlook: Managing Divergent Recoveries* (Washington, DC: IMF, April 2021).
59 Annalise Pflueger and Gillette Conner, "The Critical Role of DFIs in Preserving SME Solvency in a Pandemic," (blog, SME Finance Forum, May 27, 2020), https://www.smefinanceforum.org/post/the-critical-role-of-dfis-in-preserving-sme-solvency-in-a-pandemic; Adva Saldinger, "How DFIs Are Responding to the COVID-19 Crisis," Devex, 29 April 2020.https://www.devex.com/news/how-dfis-are-responding-to-the-covid-19-crisis-97081.
60 Kreditanstalt für Wiederaufbau, "First Half of 2020: KfW's Financing Volume More Than Doubled as a Result of Coronavirus Aid Programmes" (Press Release, August 12, 2020), https://www.kfw.de/KfW-Group/Newsroom/Latest-News/Pressemitteilungen-Details_601280.html.

originated mostly by public commercial banks.[61] Despite its low share in total banking sector lending, the Turkey Development and Investment Bank's (Turkiye Kalkinma ve Yatirim Bankasi, TKYB) loans increased by 35 percent in 2020.[62] The United Kingdom announced a £330 billion package of government-backed and guaranteed loans to be administered by the Business British Bank (BBB). China Development Bank (CDB) issued RMB 728 billion in loans by the of end March 2020 to provide countercyclical support (0.75 percent of GDP).[63] The collective scale of support measures by Korean DBs accounts for about 3 percent of GDP.[64]

Countries with large state-owned commercial banks have provided credit support mainly through those institutions, though DFIs have supported such endeavors. In China, Germany, India, Russia, and Turkey, DFIs complemented the actions taken by public commercial banks, which in most cases were at the forefront of the COVID-19 support responses. In Russia, for example, the bulk of the support to firms was provided by commercial banks using funds from the Central Bank of Russia and state resources to provide subsidized credit. Nevertheless, Russian DFIs were also active in originating credit (for example, SME Bank) and providing guarantees to financial institutions (for example, Vnesheconombank, State Development Corporation, VEB SME Bank reported that their loans, guaranteed by VEB had saved 130,000 jobs.[65] The People's Bank of China provided 800 billion RMB in late February 2020 through relending and rediscount facilities to provide loans at preferential rates (1.6 percent to 4.55 percent) for firms involved in pandemic response or affected by it. Loans were granted by local banks, largely state-owned, including policy banks. In Turkey and India, public commercial banks also were at the forefront of the response, but DFIs contributed as well. In 2020, Korean Credit Guarantee Fund (KODIT) guarantees outstanding increased by 22.4 percent to W 63.9 trillion as compared to a growth of 4 percent in 2019.

A review of COVID-19 programs in selected countries by their main DBs and credit guarantee institutions reveals that lending (mostly at preferential terms), and credit guarantees have been the most common interventions followed by measures to facilitate access to credit and debt repayment moratoria. Results of this review are illustrated in figure 6. The most common measures were (a) lending, including lending at preferential terms (16 DFIs in 12 countries); (b) credit guarantees (11 DFIs in 10 countries); (c) facilitating access to credit (10 DFIs in 8 countries); (d) debt repayment moratoria (9 DFIs in 8 countries); and (e) injection of equity (6 DFIs in 5 countries). Most NDFIs provided more than one solution. Annex 1 contains details on NDFI interventions in the analyzed countries. Countries were selected to provide wide regional coverage and to include the largest NDFIs. Assets of NDFIs of countries included in the sample account for over 80 percent of total NDFI assets in the Agence française de développment (AFD) database.

As an immediate response to COVID-19, many NDFIs made large amounts of resources available to firms for working capital, often at preferential rates, via direct and wholesale lending. NDFIs established new facilities or replenished existing ones to provide credit directly or through financial institutions to the customers negatively affected by COVID-19. For example, NAFIN and Bancomext in Mexico manage a program of about US$2.5 billion through financial intermediaries, to contribute to enterprise liquidity. BNDES began to transfer funds to MSMEs through financial technology providers in addition to banks and credit cooperatives. Other institutions such as BDC, CEF, and Russia's SME Bank, provided loans directly. Almost all NDFIs provided loans at preferential rates under special COVID-19 facilities with the notable exceptions of BDC, NAFIN, Bancomext, and BBB.

61 D. A. McDonald, T. Marois, and D. Barrowclough, eds., *Public Banks and Covid-19: Combatting the Pandemic with Public Finance* (Kingston: Municipal Services Project: Kingston, Canada; Geneva: UNCTAD; and Brussels: Eurodad, 2020). As of the end of 2020, the three largest commercial banks in Turkey in terms of assets are state-owned.

62 TKYB's share in the total banking sector assets and loans is 0.5 and 0.6 percent, respectively, as of 2020. In addition to TKYB, other development banks are active in Turkey, but are not part of the study. These include the private development bank Industrial Development Bank of Turkey (Turkiye Sinai Kalkinma Bankasi, TSKB) and two other publicly owned development banks, the Turkish Export-Import Bank Eximbank and Illerbank, focused on municipal finance.

63 China Development Bank, "CDB Leverages Counter-cyclical Adjustment to Help Ensure 'Six Priorities' and Stability in Six Areas," April 22, 2020, http://www.cdb.com.cn/English/xwzx_715/khdt/202008/t20200820_7623.html.

64 Fitch Ratings, "South Korea's Key Policy Banks Countercyclical Policy Role Stands Out Amid the Coronavirus-Triggered Downturn" (Special Report, June 22, 2020).

65 SME Bank,"SME Bank Helped to Save More Than 130 Thousand Jobs with the Help of Programs of State Support for SMEs," September 29, 2020, "https://mspbank.ru/media/news/MSP-Bank-pomog-sokhranit-bolee-130-tysyach-rabochikh-mest-s-pomoshchyu-programm-gospodderzhki-subekt/

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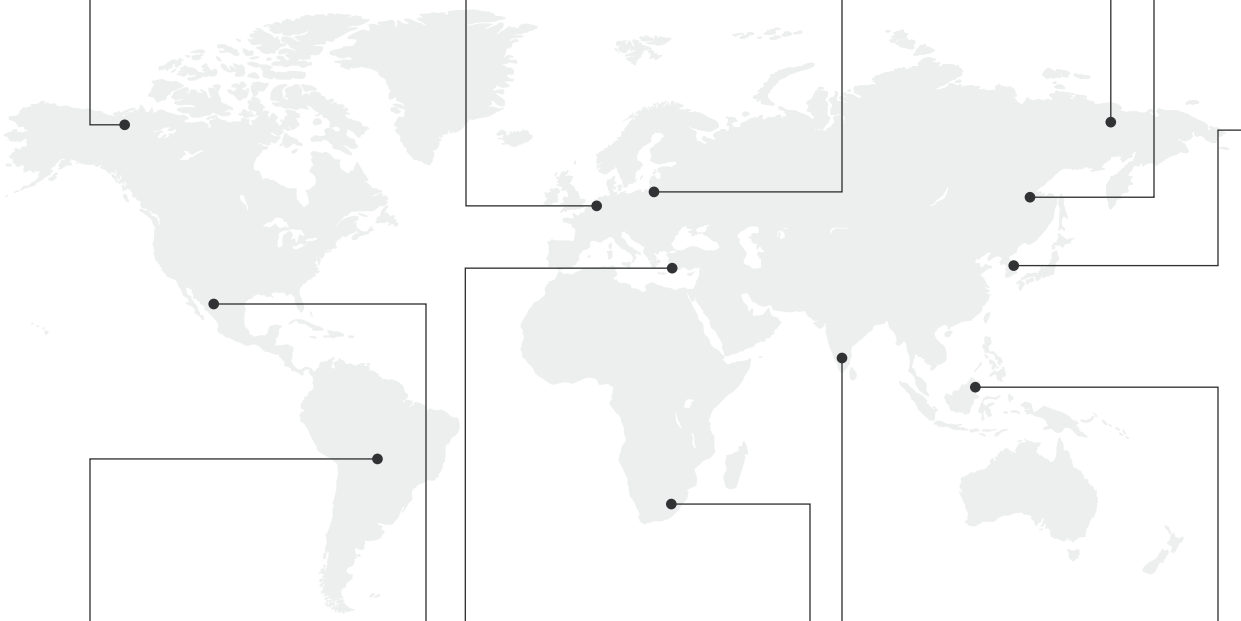
FIGURE 6 - COVID-19 Response of the Selected DFIs



CANADA
Business Development Bank of Canada (BDC)
Lending
Equity
Facilitating access to credit
Moratorium
Other
Export Development Canada (EDC)
Credit guarantees
Facilitating access to credit

GERMANY
Kreditanstalt für Wiederaufbau (KfW)
Preferential lending
Equity
Credit guarantees
Moratorium

POLAND
Bank Gospodarstwa Krajowego (BGK)
Preferential lending
Credit guarantees
Facilitating access to credit
Moratorium
Other

RUSSIAN FEDERATION
VEB Russia
Credit guarantees
SME Development Bank
Preferential lending
Facilitating access to credit

CHINA
China Development Bank (CDB)
Preferential lending
Facilitating access to credit
Moratorium
Other

SOUTH KOREA
Korea Development Bank (KDB)
Preferential lending
Equity
Facilitating access to credit
Other
Export-Import Bank of Korea
Lending
Equity
Facilitating access to credit
Industrial Bank of Korea (IBK)
Preferential lending
Other
Korea Credit Guarantee Fund (KODIT)
Credit guarantees
Other

BRAZIL
Caixa Econômica Federal (CEF)
Preferential lending
Liquidity support
Facilitating access to credit
Moratorium
Other
Brazilian Development Bank (BNDES)
Preferential lending
Equity
Credit guarantees
Moratorium
Other
Fundo Garantidor de Operações (FGO)
Credit guarantees

TURKEY
Turkey Development and Investment Bank (TKYB)
Preferential lending
Credit Guarantee Fund (KGF)
Credit guarantees
Small and Medium Industry Development Organization (KOGSEB)
Facilitating access to credit
Moratorium

INDIA
Small Industries Development Bank of India (SIDBI)
Lending
Liquidity support
National Credit Guarantee Trustee Company
Credit guarantees

MALAYSIA
SME Bank
Preferential lending
Moratorium
Credit Guarantee Corporation (CGC) and Syarikat Jaminan Pembiayaan Perniagaan (SJPP)
Credit guarantees
Other

MEXICO
Nacional Financiera (NAFIN) and Banco Nacional de Comercio Exterior (Bancomext)
Lending
Facilitating access to credit
Other

SOUTH AFRICA
Small Enterprise Finance Agency (SEFA)
Preferential lending
Moratorium
Industrial Development Corporation
Lending

Source: Websites of the respective DFIs: https://publicbankscovid19.org/.
Note: The COVID-19 response is reported for DFIs operating under micro, small, and medium enterprise and export/import mandates. The list of measures undertaken by the selected DFIs is not exhaustive. DFI = development financial institution.

Generous partial credit guarantees were the main mode of intervention in many countries provided either by DBs or credit guarantee institutions. In some cases, credit guarantee institutions guaranteed DB loans as well. As many companies faced reduced cash flows and depletion of the collateral, it became more difficult for them to obtain necessary financing at favorable terms. To provide risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans, BBB, KfW, and KODIT offered 100 percent guarantees on certain loans. BNDES under the Emergency Credit Access Program (PEAC) provided 30 percent first loss guarantee on new SME loan portfolios granted during the COVID-19 emergency. Export Development Canada (EDC) and Bank Gospodarstwa Krajowego (BGK) in Poland provided up to 80 percent guarantees with guarantee fees deferred for the first six months or zero percent fee. Other conditions were eased as well. For example, BGK de minis guarantee (from January 1, 2021, to June 30, 2021) can be provided to companies in arrears with the Tax Office, provided they did not have any on February 1, 2020.[66] In several countries guarantees are provided by specialized institutions (for example, Korea, Malaysia, South Africa, Turkey). Credit Guarantee Fund (KGF) in Turkey provides guarantees on loans to SMEs and companies with liquidity needs and collateral deficit. The Turkey Development and Investment Bank (TKYB), as all public banks in Turkey, has access to KGF guarantees. During the pandemic, the capital of KGF was doubled from TRY 25 billion to TL 50 billion.[67] The Small Industries Development Bank of India (SIDBI) obtained a 100 percent guarantee on loans from the Emergency Credit Line Guarantee Scheme (ECLGS) from the National Credit Guarantee Trustee Company, while it did not provide guarantees itself.

Several NDFIs also provided equity solutions for firms. Matching facilities were developed for financing of start-ups in Canada, Germany, and the United Kingdom that are generally not eligible for other COVID-19 financial support schemes. For example, BDC's investment arm, BDC Capital (BDCC), may match with a subordinated convertible note of up to CAD 3 million, a current financing round by an eligible Canadian start-up through a qualified investor. Eligible companies must have raised at least CAD 500,000 in external capital and, while impacted by COVID-19, must have a high likelihood of survival. Subordinated, convertible, promissory notes issued to BDCC will accrue interest annually at the fluctuating BDCC rate plus 4 percent, have a maturity date of three years, and will be convertible at the option of BDC. KfW Corona Matching Facility provides liquidity to innovative start-ups and young growth enterprises in the portfolio of venture capital funds. The facility matches equity financing by private venture capital funds into start-ups with federal funds via KfW. Besides matching schemes, BNDESpar, a subsidiary of BNDES, has made R$ 4 billion available for purchasing quotas from SMEs debt capital funds. Korean Development Bank provided equity injections to stabilize firms in strategic sectors, while Korea Exim Bank set up dedicated funds to invest in pharmaceutical venture companies.

To alleviate repayment burden and facilitate access to credit, DFIs eased financial conditions for new and existing financial products, provided moratoria on loan payments and cofinanced bank loans. Many NDFIs (for example, EDC, CEF, KfW) offered loans at preferential rates to specific segments and suggested restructuring of existing loans (for example, TKYB) for sectors negatively affected by the pandemic. In certain cases, the interest rate reduction was subsidized by the state (for example, EDC, VEB) or cross-subsidized by sectors or products that were not affected by the pandemic. Conditions on existing facilities were also reviewed. For example, BGK in Poland extended grace periods and maturities on some of its loans and reduced interest rates on the new loans under the existing schemes. Many NDFIs provided debt repayment moratoria on existing loans and grace periods for new loans for the period of 6 to 12 months. As most SMEs have experienced revenue losses and many of them do not have enough of a safety cushion, debt repayment moratoria relieved their financial burden and saved them from bankruptcy. In this regard, for instance, Small Enterprise Finance Agency (SEFA) in South Africa provided debt repayment moratoria to MSMEs and BNDES in Brazil extended a moratorium to firms and municipalities. BGK in Poland also offered moratoria on some of its loan programs but, in that case, to benefit from more favorable loan conditions; the entrepreneur has to submit an application to the financial institution that granted the loan containing a justification that the crisis related to the COVID-19 pandemic has affected or will have a negative impact on the firm. The financial intermediaries that granted the loan decide on the changes in repayment terms. Some NDFIs (for example, BDC in Canada) also facilitated access to credit by cofinancing loans.

NDFIs also provided liquidity support to other financial institutions facing difficulties as their borrowers experienced distress and markets curtailed financing. For example, CEF purchased payroll loan portfolios from medium banks and agribusinesses. SIDBI established two schemes for special liquidity support to MSMEs affected due to COVID-19 through nonbank financial companies (NBFCs) and microfinance institutions (MFIs).

66 AECM (European Association of Guarantee Institutions), "Overview of Measures Against the Economic Impact of the Coronavirus (COVID-19) Outbreak," https://aecm.eu/wp-content/uploads/2020/05/2020.05.11-ELTI-NEFI-AECM-Coronavirus-COVID-19-Support-Measures-2.pdf.

67 The support of Turkey's Ministry of Treasury and Finance for KGF guaranteed loans was increased from TL 25 billion to TL 50 billion in March 2020. Thus, the Ministry-backed CGF guaranteed limit amounted to TRY 500 billion. Central Bank of the Republic of Turkey, "Financial Stability Report," May 2020, https://www.tcmb.gov.tr/wps/wcm/connect/531ffe44-17bd-46e9-9e55-02832723f110/Full+Text.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-531ffe44-17bd-46e9-9e55-02832723f110-ncfZ4cq.

Some NDFIs also intervened to stabilize financial markets and provided guarantees on firm securities. KDB and Industrial Bank of Korea (IBK) purchased high-grade (A and higher) corporate paper and commercial paper to help debt refinancing through participation in the bond market stabilization fund. Mexican banks provided guarantees on payment of capital and interest on the issuance of commercial paper, stock market certificates, or any other instruments used in national or foreign stock exchanges. The Korea Credit Guarantee Fund, in addition to credit guarantees, provides a guarantee on Primary Collateralized Bond Obligation (PCBO) to facilitate financing to companies more efficiently by guaranteeing the repayment of their corporate bonds indirectly.[68]

Apart from standard operations, NDFIs also turned to innovative solutions to support companies and sectors affected by the pandemic. KDB set up a special purpose vehicle (SPV) through which it could purchase corporate debt, including low rated bonds carrying a KODIT guarantee to help finance low-rated firms that faced difficulties due to reduced investment during the pandemic. BNDES set up a partnership with different institutions for an online fundraising campaign, Salvando Vidas, for the acquisition of material, supplies, and protective equipment for doctors, nurses, and other health professionals who work in hospitals. Salvando Vidas has a partnership with and association of health institutions that centralizes demand and distribution among all the hospitals in the project. A nonprofit organization, Sitawi Finance Well, with the support of match-funding platform Benfeitoria, manages the financial, accountability, and procurement of the items and the coordination of the campaign. A digital platform for health sector purchases (Bionexo) makes its technology platform available for evaluation and price quotations, with more than 10,000 suppliers, and will monitor the individualized deliveries at each health institution.[69]

Support included not only funding but also advisory services. For example, BDC introduced three new advisory service solutions, accessible remotely, to help businesses plan for recovery, in which its experts provide advice on online sales optimization, operations and cash flow resilience, and workplace health risk mitigation. A dedicated hub on its website includes free tools and advice, such as a COVID-19 business toolkit and a list of available support measures.[70] In other cases, DFI credits were provided jointly with training delivered by another institution. In Brazil, CEF preferential credits to micro and small firms were accompanied by training provided by Brazilian Micro and Small Enterprises' Support Service (SEBRAE).

Despite substantial NDFI activity, it is also worth mentioning that credit support programs for the smaller and larger firms in some of the analyzed countries have been provided without involvement of NDFIs. In Mexico, for example, large support programs have been provided by the government directly, entirely bypassing public institutions. This is the case, for example, for the Credito a la palabra program for family microenterprises, which provides 25,000 Mexican pesos to businesses registered in the Welfare Census, which identifies potential receptors of social programs, at 6.5 percent interest rate for three years, with a three month grace period. Government employees contact those registered in the Census offering the credit, which is disbursed into a financial institution account. While Banco del Bienestar is a public development bank focused on financial inclusion and envisioned to distribute social programs in Mexico, private institutions will disburse these loans, given Bienestar's limited technological capabilities. On the other hand, credit to support larger companies in the United Kingdom is provided directly by the Bank of England via purchases of commercial paper either in the primary or secondary market under the Corporate Finance Facility. In South Africa, the Treasury provided a credit guarantee for SMEs affected by COVID-19 administered by the Reserve Bank of South Africa.[71] While the Treasury of the Central Bank can directly administer public credit support programs, an NDFI that has a constant presence in the market and sectoral knowledge can be in a better position to administer those programs, provided it operates efficiently.

Many programs offered support to all firms, not only those affected or those producing goods to fight COVID-19, and a few programs set conditions on recipient firms beyond financial performance prepandemic. Several NDFIs provided support to all small firms for working capital without requiring proof of being affected by COVID-19 (for example, BDC small business loans, CEF micro and small firms program, BBB Bounce Back Loan Scheme), and in some cases also to medium firms (for example, KfW instant loans to medium firms, KDB SME loans and KODIT SME guarantees, SIBDI TWARIT scheme[72]). Few programs and facilities operated by DFIs imposed conditions on the recipients. Among the analyzed programs only the Brazilian Emergency Employment Support Program (PESE) managed by BNDES and a credit

68 PCBO is a kind of asset-backed security backed by a variety of corporate bonds with varying degrees of risks and coupon rates.
69 BNDES, Matchfunding Salvando Vidas, https://www.bndes.gov.br/wps/portal/site/home/bndes-contra-coronavirus/mais-informacoes/matchfunding-salvando-vidas.
70 Business Development Bank of Canada, Advisory Services, https://www.bdc.ca/en/consulting.
71 South Africa Treasury Department, COVID Loan Guarantee Scheme, http://www.treasury.gov.za/comm_media/press/2020/COVID-19%20loan%20guarantee%20scheme%20FAQs%2026%20July.pdf
72 The Indian credit guarantee corporation also offered a 100 percent guarantee to financial institutions providing a credit up to 20 percent of existing debt to MSME borrowers, with a turnover of up to Rs. 1 billion, holding outstanding credit of up to INR 250 million from banks with loans less than 60 days delinquent. The loan maturity conditions are the same as in the Timely Working Capital Assistance to Revitalize Industries in Times of corona crisis (TWARIT) program.

guarantee facility provided by Russian VEB included an obligation for the recipient firm to maintain employment. Most programs reviewed required recipients to be current on their bank loans prepandemic or imposed some profitability requirement. For example, KfW Instant Loans for medium enterprises with more than 10 employees required firms to be profitable on average for the three previous years. In India, beneficiaries of the TWARIT program and public partial credit guarantees had to be less than 60 days overdue on their outstanding loans. BCD small business loans provided up to 100,000 Canadian dollars online for businesses that have been in operation for at least 24 months and are generating revenues. Eligible SMEs under the Russian SME bank needed to have a positive business reputation and good credit history, operate with a profit as of the end of March 2020, and be solvent.

Programs were offered for a limited time and subsequently extended as containment measures were prolonged. Virtually all COVID-19 related programs have a limited duration, although, in many cases, programs have been extended as economic disruptions arising from COVID-19 have persisted. For example, Malaysia's SME Bank Targeted Relief and Recovery Facility (TRRF) was extended until December 2021 or until full funds utilization, due to reintroduction of COVID-19 containment measures.

Diverse sources of funding were used, including securities issuance, multilateral funding, and government or central bank funding. BGK expanded facilities using European Union funds as well as COVID-19 bonds. In February 2020, China Development Bank (CDB) issued RMB 13.5 billion worth of Pandemic Bonds with one-year maturity and 1.65 percent rate. The bonds were more than 11 times oversubscribed, purchased by domestic banks and retail investors. CDB also granted RMB 10.3 billion to a People's Bank of China relending facility. NAFIN obtained loans from the European Investment Bank and the Corporación Andina de Fomento to support SMEs (about US$450 million). Indian banks obtained refinancing loans from the Reserve Bank of India at the policy rate (SIDBI was allocated INR 460 billion in total in 2020 and 2021). The Turkish Development bank obtained funds from the Central Bank as well as from the World Bank (US$250 million) and the Asian Infrastructure Investment Bank (US$300 million). In Brazil, the federal government funded programs that were administered by public banks. For example, it provided 34 billion reais to BNDES to implement the PESE program.[73] To fund some of these programs, the government got multilateral funding; the Inter-American Development Bank (IADB) provided US$200 million to fund the PEAC program. Subsidized loans granted by both public and private banks were supported exclusive¬ly with resources from Brazil's federal government. Korean DBs tapped international markets through bond issuances, in the case of KDB with a COVID-19 label, and received capital injections from the government. KDB also obtained a loan from the Bank of Korea to fund an SPV devoted to the purchase of low rating bonds issued by companies affected by the pandemic. In Malaysia, funding for government COVID-19 programs to enhance financing for businesses was provided by the Central Bank (Bank Negara Malaysia).

Governments took an unprecedented amount of risk directly in their balance sheet or through partial credit guarantee schemes and, in many cases, used NDFIs as program administrators. As previously discussed, governments provided generous credit guarantees through DBs and specialized credit institutions. But governments also directly assumed lending risks using budgetary resources with NDFIs, in many instances, simply administering government programs through off–balance sheet operations. EDC, for example, administers the Canada Emergency Business Account (CEBA), a government loan program that provides up to Can$60,000 of interest free loans to businesses and not-for-profits affected by COVID-19 to finance nondeferrable expenses (for example, payroll, lease, utilities). Loans are provided by financial institutions using government resources and repayment of Can$40,000 before December 31, 2022, will result in loan forgiveness of the reminder of the loan. In Brazil, the government took 85 percent of the risk in the PESE program, and 100 percent in the case of Programa Nacional de Apoio às Microempresas e Empresas de Pequeño Porte (PRONAMPE), with the programs being administered by DFIs. In Korea, the government created the Key Industry Stabilization Fund to prevent major companies from going bankrupt during the COVID-19 pandemic. The fund is funded through bond issuance, fully guaranteed by the government, and is administered by KDB. For example, Asiana Airlines, the nation's second-biggest carrier, will receive 2.4 trillion won from the fund because its stake sale collapsed.[74]

Programs were mostly disbursing funds quickly, favored by the state taking the risk as well as institutions' operational efficiency and previous experience during the 2008 global financial crisis. However, new borrowers have faced long delays in some programs. To speed up disbursement many NDFIs introduced simplified approval procedures and digital technologies. KfW, for example, does not carry out its own risk assessments for companies for loans up to €3 mil-

73 Presidency of the Republic [Brazil], "Emergency Employment Support Program, Provisional Measure No. 944 of 2020, https://www.congressonacional.leg.br/materias/medidas-provisorias/-/mpv/141415.

74 Kyungji Cho, "Korea's $35 Billion Rescue Fund Sells Debt as Airlines Seek Help" (Bloomberg, October 19, 2020), https://www.bloomberg.com/news/articles/2020-10-19/korea-s-35-billion-rescue-fund-sells-debt-as-airlines-seek-help.

lion, relying on the intermediary disbursing the loan, even if 100 percent guaranteed by KfW. For loans of up to 10 million euros, KfW operates a simplified risk assessment procedure. On the instant loan, KfW does not conduct credit risk assessment beyond checking that companies were profitable in the last three years and in good credit standing. SIDBI simple agreement for equity (SAFE) loans are originated in 40 hours, albeit disbursing takes longer. Export-Import Bank of Korea processes loans to import and export SMEs under a fast track by reviewing financial statements and skipping nonfinancial assessment for credit rating determination. The Bounce Back Loan Scheme (BBLS) operated by BBB focused on decreasing the time between application and payment of loans by removing credit and affordability checks required under the Consumer Credit Act. Lenders approve loans for existing business customers within 24 to 72 hours but approval times for new customers take substantially longer (up to 12 weeks). Canada reinstated the Business Credit Availability Program (BCAP) launched in the aftermath of the global financial crisis that allowed for a rapid rollover by Canadian DFIs. The investments BDC has been making over the past few years in digital solutions were a key factor in helping the bank respond to a high volume of financing requests during that period.51[75] Few banks, however, focused on assessing firm viability due to heightened uncertainty and focus on disbursement. BDC is an exception as it loans are available to the firms that were financially stable and viable prior to the current economic situations and that have a plan to explain how investment will bring activities back to pre-pandemic levels. Digital technologies also played a role in speeding up disbursement of loans. In India, the PSBLoanin59minutes initiative, which was launched before the COVID-19 pandemic, became an instrumental tool that allowed MSMEs to get loan amount from Rs. 1 Lakh to Rs. 5 Crore in less than 59 minutes from public and private sector banks as well as nonbanking financial companies.

In some cases, limited demand for credit given heightened economic conditions as well as design features of the schemes that limit eligibility and attractiveness hampered program disbursement. At the initial stage of operation, the government of India relaxed eligibility criteria under the Emergency Credit Line Guarantee Scheme (ECLGS) to include firms with higher total outstanding debt as well as individual loans given to professionals (for example, doctors, lawyers) to widen the scope of the program and allow for higher disbursements.[76] Brazil's PESE program had only disbursed 7.3 billion reais by the end of October (about 20 percent of original program size), although the program was amended in August to finance payrolls of larger firms. In July, half of the original program resources (17 billion reais) were transferred to the PRONAMPE program. At the launch of the Coronavirus Business Interruption Loan Scheme (CBILS) provided by BBB, companies complained that they could not get loans owing to demands for personal guarantees and strict rules set by banks. Strict eligibility criteria created a backlog of applications for the smaller end of the SME market that prompted the government creation of the Bounce Back Loan Scheme (BBLS).

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TABLE 1 - Private Credit Growth by Banks, Year over Year

Country	Credit growth, 2018–2019	Credit growth, 2019–2020
Brazil	10.0%	12.7%
China	12.5%	13.6%
Germany	5.1%	4.4%
India	7.2%	6.1%
Korea, Rep.	8.6%	9.4%
Malaysia	4.8%	4.0%
Mexico	10.7%	−3.8%
Poland	4.3%	0.2%
Russian Federation	8.2%	11.3%
South Africa	5.7%	1.7%
Turkey	12.4%	34.1%
United Kingdom	2.7%	4.3%

Source: IMF (International Monetary Fund), International Financial Statistics (IFS), data.
Note: Numbers represent growth in claims on private sector by other depositary corporations (in nominal local currency unit, not adjusted for inflation). As inflation in some of the countries heightened in 2020, real credit growth might be more moderate.

75 Business Development Bank of Canada, BDC Releases Its 2020 Financial Results (News Release, July 24, 2020), https://www.bdc.ca/en/about/mediaroom/news-releases/bdc-releases-2020-financial-results.
76 The scheme has undergone three iterations and currently the ECLGS version 4.0 is operational. As of June 2021, disbursements under the existing ECLGS have reached 89.7 percent, benefiting almost 10 per cent of the value of banking sector advances and over 60 percent value of advances to MSMEs.

Nevertheless, credit growth in most of the analyzed countries was similar or higher than credit growth in the previous year; the counterfactual would have been much worse in the absence of public sector programs. The KfW reports that it received 127,000 loan applications (with around 97 percent coming from SMEs) and lent out just under 54.3 billion euro (as of March 2021).[77] By the end of 2020, the BNDES raised R$155.4 billion in the economy to help Brazilian companies overcome the effects of the COVID-19 pandemic, with the highest allocation to MSMEs, with the support of R$34.1 million to 466,000 clients.[78] In the United Kingdom, at mid-March 2021, about 1.6 million government-guaranteed loans worth almost £75.1 billion were delivered by BBB to small businesses to support their cashflow during the crisis, of which £46.5 billion was provided under BBLS.[79] To put the figure in perspective, new credit to SMEs in 2019 amounted to £57 billion. Partly thanks to decisive action of DBs in many countries, as well as public commercial lenders, most countries have broadly maintained or increased credit growth levels in 2020 despite sharp economic deceleration, except for Mexico (table 1). The notable exception is Turkey that exhibited private credit growth of 34.1 percent over 2020 thanks primarily to the credit expansion of state-owned commercial banks. On the other hand, credit in South Africa and Poland virtually froze, and credit in Mexico decelerated substantially. In the case of Korea, for example, Fitch concluded that the support measures implemented by Korean DFIs were effective in containing the immediate risk of a credit crunch.[80]

Beyond supporting credit growth, the effectiveness of these programs is still to be assessed. The main concerns refer to support to unviable firms. As the objective was promptly disbursing funds to avoid economic paralysis, many programs did away with credit assessment requirements which raises concerns regarding support to unviable firms that could result in large nonperforming loans. A report by the United Kingdom National Audit Office on the BBLS scheme concluded that the program "prioritized one aspect of value for money—payment speed—over almost all others and has been prepared to tolerate a potentially very high level of losses as a result."[81] However, as the program contains a 12-month grace period on principal, and interest repayments have yet to begin, assessing the value for money of the program is not yet possible. **Fraudulent use of schemes is also a concern, although these considerations have also emerged in public credit support programs implemented by private financial institutions.** In the United Kingdom, for example, there were concerns raised by the Department of Small Business and BBB regarding BBLS scope for fraud.[82] The National Audit Office (NAO) report on the program notes that BBB was not able to prevent duplicate applications across lenders for the first month of the program and that up to 2.3 percent of approved applications were duplicates before the solution went live. Furthermore, given emphasis on quick disbursement and the placement of antifraud checks on lenders, the Cabinet Office's Government Counter Fraud Function believes fraud losses are likely to be significantly above the general estimates of public sector fraud levels of 0.5 to 5 percent. Fraud and credit risks are interrelated and estimates of credit losses for the program by government at the program inception ranged between 35 and 60 percent. In China, a proportion of loans provided by state-owned banks intended for improving the li-quidity for SMEs were granted to shell corporations and diverted for speculation on real estate illegally, which appears to have contributed to the rising property prices in major cities, especially the Shenzhen special economic zone in southern China.[83] However, it is worth noting considerations regarding fraud and effectiveness of the publicly supported credit programs also applied in cases where they were operated by private banks. The US payroll protection program administered by the Small Business Administration in the United States and implemented by private banks to support employment in SMEs seems to have been prone to fraud. Furthermore, more than half of the funds under the program went to just 5 percent of the borrowers, as banks participating in the scheme tended to favor larger firms with well-established banking connections that are not the ones that are more credit constrained.[84] Concerns have also been raised about the limited transparency of some of the programs. For example, the United Kingdom Treasury and BBB have been criticized by transparency campaigners for failing to provide the details of companies that have accessed the state backed loan schemes.[85]

77 Kreditanstalt für Wiederaufbau, "KfW Annual Review 2020: Strong Operating Result—Negative Impacts of Coronavirus Weigh on Consolidated Profit" (Press Release, March 25, 2021), https://www.kfw.de/KfW-Group/Newsroom/Latest-News/Pressemitteilungen-Details_642752.html.
78 BNDES, "BNDES Supported More Than 460,000 Small- and Medium-Sized Enterprises in 2020 and Had a Record Profit of R$ 20.7 Billion," March 12, 2021, https://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Press/Destaques_Primeira_Pagina/20210312_small_and_medium_size_enterprises_record.html.
79 BBB, "British Business Bank Support Schemes Delivers over £75bn of Loans to 1.6m Smaller Businesses," March 25, 2021,https://www.british-business-bank.co.uk/british-business-bank-support-schemes-delivers-over-75bn-of-loans-to-1-6m-smaller-businesses/.
80 Fitch Ratings, "South Korea's Key Policy Banks Countercyclical Policy Role Stands Out Amid the Coronavirus-Triggered Downturn" (Special Report, June 22, 2020).
81 NAO, "Investigation into the Bounce Back Loan Scheme," October 7, 2020, https://www.nao.org.uk/report/bounce-back-loan-scheme/.
82 Fraud drivers include multiple applications, lack of legitimate business, impersonation, and organized crime.
83 McDonald, Marois, and Barrowclough, Public Banks and Covid-19.
84 Jonathan O'Connell et al., "More Than Half of Emergency Small-Business Funds Went to Larger Businesses, New Data Shows," *Washington Post*, December 2, 2020, https://www.washingtonpost.com/business/2020/12/01/ppp-sba-data/.
85 Treasury under fire over disclosure silence on virus loans, Financial Times (August 23, 2020).

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Conclusion

NDFIs, specially DBs and PCG funds, have played an important role in implementing countercyclical policies to mitigate the economic effects of the COVID-19 pandemic. NDFIs have been acting in line with their mandates by providing countercyclical lending, mobilizing and distributing resources, and overall supporting the production system and employment. Lending (mostly at preferential terms) and credit guarantees (provided by DBs or credit guarantee institutions) have been the most common interventions followed by measures to facilitate access to credit and debt repayment moratoria. NDFIs also provided liquidity support to other financial institutions facing difficulties as their borrowers experienced distress and markets curtailed financing. Several NDFIs provided equity solutions for firms, and some intervened to stabilize financial markets and provided guarantees on firm securities. Support included not only funding but also advisory services. Governments not only provided generous credit guarantees through DBs and specialized credit institutions but also directly assumed lending risks using budgetary resources, with NDFIs, in many instances, simply administering government programs through off–balance sheet operations. Programs were offered for a limited time and were subsequently extended as containment measures dragged on.

Despite shortcomings identified in several programs, interventions have effectively supported, jointly with other interventions, credit growth in most countries. In some cases, design features of the schemes that limit eligibility and attractiveness hampered program disbursement, which prompted the revision of program conditions. New borrowers have faced long delays in some programs as well. However, many programs were quickly disbursing funds, favored by the state taking the risk as well as institutions operational efficiency and previous experience during the global financial crisis. Overall, credit growth in most of the analyzed countries was similar to or higher than credit growth in the previous year; the counterfactual would have been much worse in the absence of public sector programs which in many countries included in public credit support programs implemented by DFIs.

The longer-term effects of these programs are still to be assessed, with the main concerns referring to support going to unviable firms and fraudulent use of schemes. However, these considerations also applied to programs administered by private banks. As the objective was promptly disbursing funds to avoid economic paralysis, many programs did away with credit assessment requirements or provided generous guarantees to financial intermediaries, which raise concerns regarding support to unviable firms that could result in large nonperforming loans. Concerns have also been raised about limited transparency of some of the programs. In the United Kingdom, for example, there were concerns raised by the Department of Small Busi-

ness regarding BBLS value for money and scope for fraud as the details of companies that have accessed the state backed loan schemes were initially not provided. However, considerations regarding fraud and the effectiveness of the publicly supported credit programs also applied in cases where they were operated by private banks, such as in the case of the US payroll protection program.

Governments unprecedented use of NDFIs during the COVID-19 pandemic to administer public anti-crisis programs in which the government directly assumed risks reduces the scope for mission creep and financial instability at NDFIs while increasing transparency of the cost of the interventions. Countercyclical NDFI lending requires having excess capital to allow for balance sheet expansion in crisis times. However, there is a tendency to continue expanding operations following crisis as reported in the World Bank Global DB survey suggesting an "exit problem." [86] NDFIs will tend to use their capital funding new activities providing scope to crowd-out private finance. Government use of DFIs to administer public programs without exposing the NDFI balance sheet does not require capital increases that could distort NDFI operations going forward. By separating crisis activities from the balance sheet of the institution, financial results and costs of anti-crisis programs can be more easily monitored. Furthermore, the financial sustainability of the NDFIs is preserved as the government directly assumes risks and provides the funding.

As countries implement postpandemic recovery plans, with increased focus on resilience and equity, NDFIs will continue to see strong demand for their interventions, which calls for enhanced efficiency and effectiveness of their operations. NDFIs are called to play an important role in the post COVID-19 recovery under a "building back better" approach that focuses on green recovery and maximizes development results for the most vulnerable members of society. Ensuring NDFIs' effectiveness becomes more critical as their role will likely expand in the medium-term, beyond countercyclical considerations.

The review of NDFI operations and organizational features in several countries provides valuable insights on both the upside and downside of NDFI interventions and features of NDFIs that improve their effectiveness. Following the methodology of assessing the performance of SOFIs under the World Bank Integrated SOE framework, this paper identifies lessons learned as summarized in Box 10 and illustrates how they are implemented in practice in different country cases. A well-defined mandate anchored in identified needs and focused on additionality and leverage as opposed to subsidy provision, ensuring effective management (through corporate governance and risk management), and aligning incentives (through remuneration policies, supervision, and monitoring and evaluation) are key drivers of effective performance. In cases where the environment is not supportive of NDFI effectiveness, it may be advisable to operate in second tier through other financial intermediaries.

86 World Bank, "2017 Survey of National Development Banks."

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BOX 10 - Lessons Learned from Efficient National Development Financial Institutions

LESSON 1. Identify the unmet needs and factors preventing private sector involvement and consider all public policy interventions available, beyond provision of public sector funding, to address the problem.

LESSON 2. Set up a mandate or mission statement for NDFI focused on complementing private sector and crowding in private investors to provide financial solutions to identified underserved segments or projects while preserving financial sustainability.

LESSON 3. Design NDFI facilities focused on servicing credit-constrained borrowers to ensure additionality.

LESSON 4. Develop a range of instruments to leverage private sector funding.

LESSON 5. Use preferential lending sparingly when large externalities can be justified. NDFIs need to ensure that when subsidies are necessary, they are channeled in a transparent and nondistortionary way.

LESSON 6. Operate the institution as a financial sector company not a public agency.

LESSON 7. Ensure that the institution is effectively managed and the incentives of management and staff are aligned with the objectives of the institution through effective corporate governance, risk management, and mechanisms to evaluate the performance of NDFIs.

LESSON 8. Ensure that NDFIs are properly supervised by the financial supervisory agency and that the institution operate on a level playing field.

LESSON 9. When the environment is not conducive to NDFI effectiveness, operate in second tier and raise funds in international capital markets.

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Annex 1: COVID-19 Response of the Selected National Development Financial Institutions

Country	Policies
Brazil	
Caixa Econômica Federal (CEF) Brazil	**LENDING:** (a) Working capital loans to micro and small firms, 24–26 months with a 9–12 month grace period and 15–20 percent interest rate. Loans are 80 percent guaranteed by the Brazilian Micro and Small Enterprises' Support Service (SEBRAE) through the Guarantee Fund for Micro and Small Companies. Credit is accompanied by training provided by SEBRAE. To access the line of credit, the SEBRAE tutorial must first be run by the business owner. The training suggests solutions that will help the company grow and make better use of the resources freed up. In addition, entrepreneurs must meet some annual income requirements according to industry, services, and trade. **LIQUIDITY SUPPORT:** purchase of payroll loan portfolios from medium banks and agribusinesses. **FACILITATING ACCESS TO CREDIT:** (a) cut interest rates on some types of credit, overdraft, and credit card installment fees; (b) offered clients a grace period of 90 days. **MORATORIUM:** Home building and development companies are allowed to pause the payment of financing contracts by diluting the difference over the life of the loan. **OTHER:** Plan to create 45 million digital accounts to shorten lines at its branch agencies as part of the pandemic emergency assistance.
Brazilian Development Bank (BNDES), Brazil	**LENDING:** (a) Expanded its Small Business Credit Line, which provides working capital loans at rates determined by the financial intermediaries that provide the loan (BNDES charges banks Brazilian federal funds rate [SELIC] plus 1.25 percent). Micro, small, and medium enterprises (MSMEs) and individual entrepreneurs with sales of up to R$90 million are eligible to apply; there is no need to provide information on the use of credit; (b) Emergency Employment Support Program (PESE), offering firms two monthly minimum wages per employee for a four month period. BNDES manages PESE and operates it for medium and large firms. The loan has a fixed rate of 3.75 percent per year and a total term of 36 months, including a six-month grace period. In return, the company cannot dismiss employees without cause, for up to 60 days after receipt of the last installment of the credit line, in the same proportion as the total payroll that has been paid with program resources. Loans are 85 percent guaranteed by the government, which also provides 85 percent of funding through BNDES. Program until June 30, 2020, was extended till October 31, 2020. Entrepreneurs, business societies, and cooperative societies with annual sales exceeding R$360 thousand and equal to or less than R$50 million are eligible to apply. **CREDIT GUARANTEES:** Emergency Credit Access Program (PEAC) provides 30 percent first loss guarantee on new small and medium enterprises (SME) loan portfolios granted during the COVID-19 emergency using resources of the Investment Guarantee Fund, which is administered by BNDEs. Loans have a 12–60 month maturity and a 6–12 month grace period. Program operates until December 2020. **EQUITY:** BNDESpar, a subsidiary of BNDES, made R$4 billion available for purchasing quotas from SMEs debt capital funds (up to R$500 million per fund and 90 percent of the total quotas). **MORATORIUM:** six months suspension of payments (standstill) to the private sector as well as suspension of payments by states and municipalities. In addition, BNDES accelerated the release of financing contracted by states. **OTHER:** Matchfunding Salvando Vidas (Saving Lives), a collective financing action aimed at the purchase of materials, supplies, and equipment for santas casas and philanthropic hospitals.
Fundo Garantidor de Operacaos (FGO), Brazil	**CREDIT GUARANTEES:** Guarantees 100 percent of the Programa Nacional de Apoio às Microempresas e Empresas de Pequeño Porte (PRONAMPE) loans, in which banks provide loans to micro and small businesses for working capital in amounts up to 30 percent of 2019 firm-declared revenue. Rate is fixed at SELIC +1.25, banks can charge administrative fees. Loan term is 36 months. FGO is administered by Banco do Brasil, a state-owned commercial bank.

Country	Policies
Canada	
Business Development Bank of Canada (BDC), Canada	**LENDING:** (a) Working Capital Financing Loans of up to CAD 2 million for businesses directly or indirectly impacted by COVID-19, with flexible repayment terms such as principal postponements for qualifying businesses. Loans are available to firms that were financially stable and viable prior to the current economic situations and that have a plan to explain how investment will bring activities back to pre-pandemic levels. (b) Small business loan: Up to CAD 100,000 online for businesses who have been in operation for at least 24 months and are generating revenues. **EQUITY:** BDC's investment arm, BDC Capital (BDCC), is offering up to CAD 150 million in short-term liquidity to venture capital-backed, high potential, companies. BDCC may match, with a subordinated convertible note of up to CAD 3 million, a current financing round by an eligible Canadian start-up through a qualified investor. The financing may be either equity or bridge financing (such as convertible debt or a simple agreement for equity, SAFE) and must be a minimum of CAD 250,000. Eligible companies must have raised at least CAD 500,000 in external capital and while impacted by COVID-19, must have a high likelihood of surviving the impact of COVID-19. Subordinated, convertible, promissory notes issued to BDCC will accrue interest annually at the fluctuating BDCC rate plus 4 percent, have a maturity date of three years and will be convertible at the option of BDC. **FACILITATING ACCESS TO CREDIT:** (a) BDC co-lending program to support businesses experiencing cash flow challenges due to COVID-19. Eligible businesses may obtain incremental credit amounts up to CAD 6.25 million, 80 percent of which would be provided by BDC, with the remaining 20 percent provided by a financial institution and up to 12-month grace period. Available until June 2021 to businesses that were financially stable and viable prior to the current economic situations, subject to primary financial institution's credit criteria. (b) Mid-Market Financing Program for medium businesses affected by COVID-19. Loans ranging between CAD 12.5 million and CAD 60 million each, available until or before June 2021. Cofinanced by BDC and financial institutions. Junior loans spanning up to four years, after which principal is to be repaid as a balloon payment. Interest payments for the first 12 months will be capitalized and due at maturity. These programs are part of the Business Credit Availability Program (BCAP) announced by the government. Loans are available for companies that have been financially stable and viable prior to current economic situation, with annual revenues between CAD 100 and CAD 500 million. **MORATORIUM:** postponement of principal payments for up to six months, for existing BDC clients with total BDC loan commitment of CAD 1 million or less. **OTHER:** three new advisory service solutions, accessible remotely, to help businesses plan for recovery in which its experts provide advice on online sales optimization, operations and cash flow resilience and workplace health risk mitigation. A dedicated hub on its website that includes free tools and advice, such as a COVID-19 business toolkit and a list of available support measures.
Export Development Canada (EDC), Canada	**CREDIT GUARANTEES:** As part of BACP, EDC provides up to 80 percent guarantee for new operating lines of credit or new term loans for small and medium enterprises (SMEs) to sustain operations in response to COVID-19. EDC fees related to this guarantee may be deferred for the first six months for smaller credit amounts. **FACILITATING ACCESS TO CREDIT:** EDC administers the Canada Emergency Business Account (CEBA), a government loan program that provides up to CAD60,000 of interest free loans until March 31, 2021, to businesses and not-for-profits affected by COVID-19 to finance nondeferrable expenses (for example, payroll, lease, utilities). Repayment of CAD 40,000 from total CAD 60,000 loan on or before December 31, 2022, will result in loan forgiveness of 33 percent (up to CAD 20,000). If the loan cannot be repaid by December 31, 2022, it can be converted into a three-year term loan with an interest rate of 5 percent. Loans are provided by financial institutions using government resources. To qualify, applicants must demonstrate that their total payroll in 2019 was between CAD 20,000 and CAD 1.5 million, and that they were operating as of March 1, 2020.

Country	Policies
China	
China Development Bank (CDB), China	**LENDING:** (a) Loans and grants to local governments to bolster medical response for prevention and control of the pandemic and for enterprises participating in pandemic response activities. Loans granted withing 24–48 hours. (b) CDB set up a special working capital loan facility at preferential rates for supporting work and production resumption of enterprises engaged in epidemic prevention and control, production of essential goods, and logistics; helping major projects resume construction as soon as possible; and helping epidemic-affected enterprises engaged in foreign trade and global expansion to resume work and production. **FACILITATING ACCESS TO CREDIT:** CDB may temporarily lower the interest rates of new loans for major projects and core enterprises in epidemic-stricken regions, fields, and industries. CDB can change to an installment payment plan, extend loan terms, or enter into refinancing arrangements, provided that effective control of related risks is ensured. **MORATORIUM:** Affected enterprises are allowed to defer loan payments **OTHER:** CDB issued Pandemic Bonds, raising funds to provide emergency financing for epidemic prevention and control.
Germany	
Kreditanstalt für Wiederaufbau (KfW), Germany	**LENDING:** KfW Special Programme 2020 for small and medium enterprises as well as large companies with lower interest rates and simplified risk assessment. KfW Instant Loans for medium enterprises for firms with more than 10 employees, which are profitable on average for the three previous years. Ten-year loans are granted at 3 percent interest. The issuing or on-lending bank is backed 100 percent by the KfW once the conditions are met, no further risk assessment needs be done by the issuing bank or by the KfW. The KfW Entrepreneur Loan and start-up loans provide investment and working capital loans for firms, with KfW assuming 80 percent of the risk for large companies and 90 percent for SMEs. Interest rates range between 1 percent and 1.46 percent per annum for SMEs and between 2 percent and 2.12 percent per annum for all other companies. The large-scale Special Program provides support to medium and large compa¬nies, with KfW providing syndicated financing of at least €25 million and up to 50 percent of total debt, taking 80 percent of the risk. **CREDIT GUARANTEES:** KfW provides several guarantees on COVID-19 schemes as described above. **EQUITY:** Corona Matching Facility to support start-ups and young, growing companies. The facility matches equity financing by private venture-capital funds for start-ups with a share of up to 50 percent per investment. **MORATORIUM:** Principal payment delays for nine monthly or three quarterly repayment installments on loans provided through financial intermediaries. The repayment of the delayed repayment installments may be done at the obligor's request either equally distributed over the term to maturity or as a lump sum with the final repayment installment (balloon). Program was available for March–October 2020.
India	
Small Industries Development Bank of India (SIDBI), India	**LIQUIDITY SUPPORT:** (a) Scheme for special liquidity support to MSMEs through nonbank financial companies (NBFCs), microfinance institutions (MFIs) and Banks; (b) purchases of assets and bonds issued by NBFCs and public sector banks (PSBs) was implemented by SIDBI and included a 20 percent government guarantee on first losses for two years (up to March 2021). Purchases were made by commercial banks, while SIDBI was an implementing agency that did not actually purchase any assets or bonds under this scheme. National Bank for Agriculture and Rural Development also facilitated a liquidity facility during the COVID-19 pandemic. **LENDING:** (a) SIDBI SAFE provides up to 100 percent financing for capital expenditures and working capital to MSMEs that are manufacturing any products or providing any services directly related to fighting coronavirus under five-year term loans or revolving credit lines. SAFE PLUS provides revolving credit lines for SMEs with confirmed orders of government agencies for goods and services related to the COVID-19 fight. Both loans carry a 5 percent fixed rate. For both schemes, new customers should have at least two years of cash profits and an account not in SMA1/2 category, and existing customers should have cash profit in last audited balance sheet and account not in SMA1/2 category. (b) Working capital assistance to existing borrowers with loans less than 60 days past due to revitalize industries in Timely Working Capital Assistance to Revitalize Industries in Times of corona crisis (TWARIT) repayable in four years with a year grace period and rate of 8.25 percent with annual reset, using same security as in current loans. The scheme is valid for existing customers on the books of the bank. Borrower accounts should be less than or equal to 60 days past due as of February 29, 2020, to be eligible under the scheme.
National Credit Guarantee Trustee Company (state-owned guarantee institution), India	**CREDIT GUARANTEES:** 100 percent guarantee on the loans from the Emergency Credit Line Guarantee Scheme (ECLGS) under which a Guaranteed Emergency Credit Line (GECL) was to be provided to MSME borrowers, with a turnover of up to INR 1 billion, holding outstanding credit of up to INR 250 million from banks, finan¬cial institutions, and NBFCs. Any past due on the credit outstanding had to be of a duration less than or equal to 60 days as of February 20 for the unit to be eligible for a GECL. If these criteria were met, the unit could apply for an additional credit line without collateral equal to 20 percent of its past borrowing. Loans under the scheme have a ten¬ure of four years with a debt service moratorium of one year on the principal amount.

Country	Policies
Korea, Rep.	
Korea Development Bank (KDB), Korea, Rep.	**LENDING:** (a) Loans to SMEs at preferential rates (guarantee by Korea Credit Guarantee Fund, KODIT), (b) loans, and bond purchases into firms in strategic industries through the Key Industry Stabilization Fund (KISF) administered by KDB. **EQUITY:** Equity injections under KISF. **FACILITATING ACCESS TO CREDIT:** loan renewals and restructurings. **OTHER:** (a) purchase of high grade (A and higher) corporate paper and commercial paper to help debt refinancing through participation in the bond market stabilization fund; (b) KDB set up a special purpose vehicle (SPV), through which they will purchase corporate debt, including low rated bonds of firms affected by COVID-19; (c) issuance of about US$1 billion bonds with a COVID-19 label on a portion of the issuance to support COVID-19 related facilities.
Export-Import Bank of Korea, (Korea Exim Bank), Korea, Rep.	**LENDING:** (a) Emergency Operating Loan to support Korean companies at risk of losing business foothold due to COVID-19; (b) Export Performance-Based Loan to support exporters and large business groups in industries leading innovative growth and material and equipment industries; (c) Special Loans for Companies without Credit Ratings. **EQUITY:** Fund dedicated to investments in healthcare and pharmaceutical sectors **FACILITATING ACCESS TO CREDIT:** Fast track approval process for SMEs by reviewing financial statements, skipping nonfinancial assessment for credit rating determination, and cutting interest rates.
Industrial Bank of Korea (IBK), Korea, Rep.	**LENDING:** loans to SMEs at preferential rates (guarantee by KODIT). **OHER:** participation in government capital markets stabilization funds (see KDB other operations).
Korea Credit Guarantee Fund (KODIT), Korea, Rep.	**CREDIT GUARANTEES:** (a) Quick and full-coverage guarantees for SMEs and small business owners; (b) guarantees for the IBK's low-interest loans for small business owners and the self-employed; (c) preferential guarantees for enhancing corporate vitality for companies in main industries and small and medium export companies in new growth engine sectors. **OTHER:** Guarantee of Primary Collateralized Bond Obligation (PCBO) to facilitate financing to companies more efficiently by guaranteeing the repayment of their corporate bonds indirectly. It is a kind of asset-backed security backed by a variety of corporate bonds with varying degrees of risks and coupon rates.
Malaysia	
SME Bank, Malaysia	**LENDING:** SME bank participates in the Bank Negara COVID SME programs including the following: (a) SME Special Relief Program (SRP) provides for up to RM 1 million working capital for SMEs in select sectors until the end of September 2021. (b) Targeted Relief and Recovery Facility (TRRF) provides up to RM 500,000 capital loans to service sector SMEs affected by reintroduction of COVID-19 containment measures in June 2020, active until December 2021. Loans are uncollateralized and with at least 6 months grace period. Loans are up to five and seven years respectively with fixed annual rates (up to 3.5 percent) including guarantee fees. Loans guaranteed by the Credit Guarantee Corporation (CGC) or Syarikat Jaminan Pembiayaan Perniagaan (SJPP). (c) SME Automatization and Digitalization Facility (ADF) provides up to 10 years investment loans for digitalization of operations up to RM 3 million with SJPP guarantee and 4 percent annual rate (included guarantee fee). (d) High Tech Facility—National Investment Aspirations to support high tech and innovation-driven SMEs provides working capital and capital expenditure loans (up to RM 5 million) with seven-year maturity. Guarantee can be requested to CGC if deemed necessary. Available until December 2021. Borrowers should be assessed by financial institutions, however, no specific criteria regarding financial health of the borrowers are applied. (e) PEMERKASA+ SME Go contract financing scheme funded by SME Bank to assist contractors offered contracts by federal or state governments, ministries, or agencies with working capital up to RM 1 million **MORATORIUM:** Automatic moratorium of payment was provided until the end of September 2020, with targeted repayment thereafter. Under SRP program, existing borrowers can get an additional six months principal moratorium and loan restructurings.
Credit Guarantee Corporation (CGC) and Syarikat Jaminan Pembiayaan Perniagaan (SJPP), Malaysia	**CREDIT GUARANTEES:** In addition to existing guarantee facilities (typically at 70 percent or below), provides 80 percent guarantee on loans granted under SRP, TRRF, ADF, and other COVID-19 related programs.

Country	Policies
Mexico	
Nacional Financiera (NAFIN) and Banco Nacional de Comercio Exterior (Bancomext), Mexico	**LENDING:** NAFIN and Bancomext manage a program of about US$2.5 billion in Mexico through financial intermediaries, to contribute to enterprise liquidity. The program provides new loans for the purpose of supporting working capital needs. Participating banks should perform credit evaluations to determine eligibility of companies to participate in the program. In addition, participating SMEs should be at least two years old, have a favorable record in the credit bureau, and generate sufficient cash flows to support the financing. **FACILITATING ACCESS TO CREDIT:** The program lengthens loan terms or provides longer grace periods to creditors. **OTHER:** Stock market guarantees to improve the liquidity situation of borrowers (payment of capital and interest on the issuance of commercial paper, stock market certificates, or any other instrument used in national or foreign stock exchanges).
Poland	
Bank Gospodarstwa Krajowego (BGK), Poland	**LENDING:** Expansion of existing lending facilities financed with the European Union funds. **CREDIT GUARANTEES:** (a) 80 percent de minimis guarantees for MSMEs loans; (b) Businessmax guarantee covers 80 percent revolving subsidized working capital loan for MSMEs during COVID-19 times; (c) Liquidity Guarantee Fund guarantees to medium and large companies affected by the pandemic. Up to 80 percent of the loan (only loans with commitments up to Zl. 250 million. **FACILITATING ACCESS TO CREDIT:** Interest rate subsidies for bank loans granted to provide financial liquidity to entrepreneurs. Relief in the repayment of the loans granted by BGK under the loan program First Business—Startup Support, includes extension of the grace period for up to 6 months and extension of the repayment period for up to 12 months. **MORATORIUM:** Moratorium for firms impacted by COVID-19 that request it. Medium and large firms had to be creditworthy at the end of 2019 and not initiated bankruptcy procedures. Small firms had to be less than 30 days behind on repayments as of the end of February 2020. Moratorium periods according to European Bank Authority guidelines. **OTHER:** Raising revenues through issuance of bonds by BGK to establish a new fund (COVID Fund) dedicated to combating the negative impacts of the pandemic.
Russian Federation	
VEB, Russian Federation	**CREDIT GUARANTEES:** The state via VEB provides credit guarantees on loans to SMEs in strategic sectors as identified by a government list: (a) guarantees loans with six months interest-free in amount of minimal monthly salary for each employee in case the company does not cut the staff and keeps people employed; (b) 50 percent guarantees on working capital loans with subsidized interest rate by the state.
SME Bank, Russian Federation	**LENDING:** Loans to SMEs to support employment using state interest rate subsidies. Loans provided at 2 and 0 percent and guaranteed by VEB. The eligible SMEs should have a positive business reputation and good credit history, operate with profit as of the end of March 2020, and be solvent. **FACILITATING ACCESS TO CREDIT:** SME Bank was the first institution in Russia to consider self-employed citizens as a special type of business organization and developed a special loan product for them in 2020. Maximum amount of unsecured loans for self-employed entrepreneurs was increased to Rub 1 million and interest rate reduced during the year to 6.25 percent annual fixed for up to three years.
South Africa	
Small Enterprise Finance Agency (SEFA), South Africa	**LENDING:** (a) Debt Relief Refinancing scheme is a soft-loan facility aimed at assisting existing MSMEs to keep them afloat during the COVID-19 pandemic for a period of six months beginning in April 2020. (b) Business Growth Resilience Facility offers working capital, stock, bridging finance, order finance, and equipment finance to MSMEs that locally manufacture or supply hygiene, medical, and food items that are in demand to curb and manage the spread of the COVID-19 virus. (c) Spaza Support Scheme is a working capital facility that provides loans and grants for small general stores or "Spaza" shops. For these schemes, eligible companies must be 100 percent owned by South African citizens, employees must be 70 percent South Africans, with a priority given to businesses owned by women, youth, and people with disabilities. While companies must provide financial statements, there is no specific requirement regarding companies' financial health. **MORATORIUM:** A payment moratorium is given to the qualifying MSME for a period of a maximum of six months.
Industrial Development Corporation (IDC), South Africa	**LENDING:** (a) Distressed Fund (R 2.5 billion) assists companies that are in distress resulting from the COVID-19 pandemic. The fund provides affordable business loans to IDC clients and other businesses operating in sectors within the IDC's mandate. (b) Small Industrial Finance Distress Fund (R 300 million) assists qualifying IDC clients, as well as new clients, that have been negatively affected by the COVID-19 pandemic. The fund offers concessionary finance to cover their short-term operating costs. (c) Essential Supplies Fund (R 800 million) provides financial support to companies providing essential supplies to address the COVID-19 pandemic.

Country	Policies
Turkey	
Turkey Development and Investment Bank (TKYB), Turkey	**LENDING:** Provision of loans through financial intermediaries to SMEs and large firms using resources from multilaterals. Investment loan facility using Turkish lira rediscount facility provided by the central bank.
Credit Guarantee Fund (KGF), Turkey	**CREDIT GUARANTEES:** limits offered in the scope of Economic Stability Shield package were increased from TL 25 billion to TL 50 billion and the total maximum amount of guarantees that may be given by KFG was increased from TL 250 billion to TL 500 billion. Turkey Development and Investment Bank can access KGF guarantees. Up to December 2020, limits on maximum guarantees provided to SMEs and large companies extended to TL 50 and 350 million, respectively. Several other KGF packages have been also released during the COVID-19 pandemic. As of July 2021, the share of KGF-backed loans in total banking sector loans is 7.5 percent.
Small and Medium Industry Development Organization (KOGSEB), Turkey	**FACILITATING ACCESS TO CREDIT:** KOGSEB provides credit support to industrial SMEs by paying a portion of the financing costs of the loans (including interest) that they borrow from Turkish banks. In response to COVID-19, nonindustrial SMEs were included in the scheme and the limit on support provided to SMEs increased from 300,000 to 3 million liras. Loans have to be provided at below market rates and for up to 60 months. **MORATORIUM:** The repayments on outstanding KOSGEB-supported loans were postponed until June 30, 2020, and KOSGEB is to bear the extra financing costs arising from such postponement vis-à-vis the Turkish banks.
United Kingdom	
British Business Bank (BBB), United Kingdom	**CREDIT GUARANTEES:** Administered by BBB on loans originated by accredited lenders: (a) 100 percent guarantee on principal and interest on loans to small business up to £50,000, or a maximum of 25 percent of annual turnover under the Bounce Back Loan Scheme (BBLS). The loans have a fixed interest rate of 2.5 percent and a maximum length of 10 years; in the first year of the loan there are no capital repayments due, and the government pays the interest. (b) 80 percent guarantee on outstanding loan balances to SMEs (up to £45 million turnover) under the Coronavirus Business Interruption Loan Scheme (CBILS). Loans up to £5 million to SMEs affected by COVID-19, interest and fees paid by the government for 12 months. Loans up to six years, overdrafts and invoice finance up to three years maturity, interest determined by the lender. Personal guarantees of any form will not be taken for facilities below £250,000. To be eligible, borrowers should have a borrowing proposal that the lender would consider viable, were it not for the current pandemic; self-certify that it has been affected by the coronavirus (COVID-19); and not be classed as a business or 'undertaking' in difficulty. (c) An 80 percent government guarantee on loans Coronavirus Large Business Interruption Loan Scheme. It is similar to CBILS but for larger firms, however there is no 12-month interest payment coverage by the government. The scheme is intended to include businesses where there are short- to medium-term performance issues due to adverse impacts of the coronavirus, but lending can only be agreed where a lender reasonably believes (i) the finance will help them trade out of any short- to medium-term cashflow difficulties, and (ii) if the facility is granted, the borrower is not expected to go out of business in the short- to medium-term. **EQUITY:** Future Fund. £250 million match-funded, convertible loans program, targeting equity-funded businesses that would be unlikely to be eligible for CBILS. It supports the United Kingdom's innovative businesses affected by COVID-19. These businesses have been unable to access other government business support programs, such as CBILS, because they are either prerevenue or preprofit and typically rely on equity investment. The program can provide investment of between £125,000 and £5 million to eligible businesses.

Source: Websites of the respective development financial institutions (DFIs); https://publicbankscovid19.org/; https://www.whitecase.com/publications/alert/covid-19-turkish-government-financial-assistance-measures.
Note: The COVID-19 response is reported for DFIs operating under micro, small and medium enterprise and export/import mandates. The list of measures undertaken by the selected DFIs is non-exhaustive.

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